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No. 16341

VOL 3105

United States
Court of Appeals
for the Ninth Circuit

JOE L. SCHMITT, JR., and HELEN M.
SCHMITT,

Petitioners,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

Transcript of Record

Petition to Review a Decision of the Tax Court
of the United States

FILED

APR 16 1959

PAUL H. GORDON, CLERK



No. 16341

United States
Court of Appeals
for the Ninth Circuit

JOE L. SCHMITT, JR., and HELEN M.
SCHMITT,

Petitioners,

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[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matters appearing in the original certified record are printed literally in *italic*; and, likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible, an omission from the text is indicated by printing in *italic* the two words between which the omission seems to occur.]

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APPEARANCES

ROBERT ASH,
1921 Eye St. N.W.,
Washington 6, D. C.,
For the Petitioners.

CHARLES K. RICE,
Asst. U. S. Attorney General;
LEE A. JACKSON,
Atty., Dept of Justice,
Dept. of Justice,
Washington, D. C.,
For the Respondent.

The Tax Court of the United States

Docket No. 60267

JOE L. SCHMITT, JR., and HELEN M.
SCHMITT, Husband and Wife,

Petitioners,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

PETITION

The above-named petitioners hereby petition for a redetermination of the deficiency set forth by the Commissioner of Internal Revenue in his notice of deficiency (Ap:LA:AA-EWM 90D-FNG), dated September 2, 1955, and, as a basis of this proceeding, allege as follows:

I.

Petitioners are husband and wife whose residence address is 8540 North Central Avenue, Phoenix, Arizona. The returns for the years here involved were filed with the Collector of Internal Revenue, Phoenix, Arizona.

II.

The notice of deficiency, a copy of which is attached hereto and made a part hereof by reference, is dated September 2, 1955.

III.

The tax in controversy is income tax for the calendar years 1949, 1950 and 1951 in the total

amount of \$12,032.56, the detail of which is as follows:

Year	Deficiency
1949	\$ 31.44
1950	9,357.72
1951	2,643.40
<hr/>	
Total	\$12,032.56

IV.

The determination of tax set forth in the said notice of deficiency is based upon the following errors:

1. The Commissioner erred in increasing 1949 income in the amount of \$9,465.02 on account of "adjustment of deduction for medical expenses."

2. The Commissioner erred in increasing 1949 income in the amount of \$9,465.02 on account of "adjustment of ordinary income from contracts covering Exact-O-Matic franchises."

3. The Commissioner erred in increasing 1950 income in the amount of \$2,268.20 on account of "elimination of a deduction for tabulating machine rental."

4. The Commissioner erred in increasing 1950 income in the amount of \$458.99 on account of "adjustment of deduction for medical expenses."

5. The Commissioner erred in increasing 1950 income in the amount of \$44,500 on account of "ad-

justment of ordinary income from contracts covering Exact-O-Matic franchises.”

6. The Commissioner erred in increasing 1951 income in the amount of \$2,008.87 on account of “disallowance of deduction for repairs to two houses.”

7. The Commissioner erred in increasing 1951 income in the amount of \$480.89 on account of “adjustment of deduction for medical expenses.”

8. The Commissioner erred in increasing 1951 income in the amount of \$12,800 on account of “adjustment of ordinary income from contracts covering Exact-O-Matic franchises.”

V.

The facts upon which the petitioners rely as the basis for this proceeding are:

1. The taxpayer, Joe L. Schmitt, Jr., is the inventor and sole owner of patents, patents pending, copyrights and registrations referred to under the trade name “Exact-O-Matic System.” The System is an accounting method, described as being an automatic mechanical process, utilizing tabulating cards to evaluate single entry information, which produces double entry bookkeeping and accounting statements.

2. During each of the years 1949, 1950 and 1951 Joe L. Schmitt, Jr., entered into a series of contracts of sale with various persons whereby they purchased all assets owned by petitioner and em-

bodied in the "Exact-O-Matic System," within certain specified geographical areas in the United States.

3. During each of the years 1949, 1950 and 1951, the purchasers of the territorial rights, referred to in paragraph (2) hereof, paid to the petitioners as part or all of the purchase price of the said contracts, the sums of \$9,465.02, \$45,500 and \$12,800, respectively.

4. In their income tax returns for the years 1949, 1950 and 1951 the taxpayers treated the amounts of \$9,465.02, \$45,500 and \$12,800, respectively, as consideration for the sale of long-term capital assets.

5. The Commissioner, in his notice of deficiency, determined that the payments referred to in the preceding paragraph represented ordinary income and not proceeds from the sale of capital assets.

6. Under the terms of the contracts of sale referred to in paragraph 2 hereof, Joe L. Schmitt, Jr., trading as Exact-O-Matic System, was required to provide training, at his expense for the personnel of the purchasers who would operate the system. The Exact-O-Matic System, Inc., a corporation, operating the Exact-O-Matic System of bookkeeping in the Phoenix, Arizona, area, contracted with Joe L. Schmitt, Jr., to furnish this training and, accordingly, Exact-O-Matic System, Inc., utilized the bookkeeping machines rented from Remington-Rand in this training.

7. The taxpayer, Joe L. Schmitt, Jr., entered into an agreement with Exact-O-Matic System, Inc., whereby Joe L. Schmitt, Jr., paid a portion of the machine rental because of the utilization of the Remington-Rand machines referred to in the preceding paragraph. In the calendar year 1950 the petitioner paid the amount of \$2,268.20 as his portion of the expense incurred in the rental of the Remington-Rand machines used to train the personnel.

8. In their tax return for the year 1950, the taxpayers deducted this amount as an ordinary and necessary business expense.

9. The Commissioner, in his notice of deficiency, determined that the payment referred to in the preceding paragraphs is not deductible as an expense of the taxpayers.

10. In December, 1951, the taxpayers purchased two houses which had been used for rental purposes and which use the taxpayers intended to continue. The taxpayers were compelled to make certain repairs to the said houses in the amount of \$2,008.89.

11. In their tax return for the year 1951, the taxpayers deducted the amount of \$2,008.89 as an ordinary and necessary business expense incurred in the repair of property held for rental.

12. The Commissioner, in his notice of deficiency, determined that repairs to the two houses represented a capital expenditure.

13. The taxpayers deducted the amounts of \$479.22, \$458.99 and \$480.89 in the years 1949, 1950 and 1951, respectively, for medical expenses.

14. The Commissioner increased the adjusted gross income of the petitioners in each of the years 1949, 1950 and 1951, resulting in a disallowance of medical expenses in the amounts of \$275.57, \$458.99 and \$480.89, respectively.

Wherefore, the petitioners pray that this Court may hear the proceeding and:

1. Determine that the Commissioner erred in increasing 1949 income in the amount of \$275.57 on account of "adjustment of deduction for medical expenses."

2. Determine that the Commissioner erred in increasing 1949 income in the amount of \$9,465.02 on account of "adjustment of ordinary income from contracts covering Exact-O-Matic franchises."

3. Determine that the Commissioner erred in increasing 1950 income in the amount of \$2,268.20 on account of "elimination of a deduction for tabulating machine rental."

4. Determine that the Commissioner erred in increasing 1950 income in the amount of \$458.99 on account of "adjustment of deduction for medical expenses."

5. Determine that the Commissioner erred in increasing 1950 income in the amount of \$44,500 on account of "adjustment of ordinary income

from contracts covering Exact-O-Matic franchises.”

6. Determine that the Commissioner erred in increasing 1951 income in the amount of \$2,008.87 on account of “disallowance of deduction for repairs to two houses.”

7. Determine that the Commissioner erred in increasing 1951 income in the amount of \$480.89 on account of “adjustment of deduction for medical expenses.”

8. Determine that the Commissioner erred in increasing 1951 income in the amount of \$12,800 on account of “adjustment of ordinary income from contracts covering Exact-O-Matic franchises.”

9. Grant such other and further relief as the Court may deem proper.

/s/ ROBERT ASH,

Attorney for Petitioners.

Duly verified.

U. S. Treasury Department
Internal Revenue Service
Regional Commissioner
1250 Subway Terminal Building
417 South Hill Street
Los Angeles 13, California

Sept. 2, 1955.

In Replying Refer to:

Ap:LA:AA-EWM

90D:FNG.

Mr. Joe L. Schmitt, Jr., and
Mrs. Helen M. Schmitt,
Husband and Wife,
8540 North Central Avenue,
Phoenix, Arizona.

Dear Mr. and Mrs. Schmitt:

You are advised that the determination of your income tax liability for the taxable years ended December 31, 1949; December 31, 1950, and December 31, 1951, discloses deficiencies in tax aggregating \$12,032.56, as shown in the statement attached.

In accordance with the provisions of existing internal revenue laws, notice is hereby given of the deficiencies mentioned.

Within 90 days from the date of the mailing of this letter you may file a petition with The Tax Court of the United States, at its principal address, Washington 4, D. C., for a redetermination of the deficiencies. In counting the 90 days you may not exclude any day unless the 90th day is a Saturday, Sunday, or legal holiday in the District of Columbia, in which event that day is not counted as the 90th day. Otherwise, Saturdays, Sundays, and legal holidays are to be counted in computing the 90-day period.

Should you not desire to file a petition, you are requested to execute, in duplicate, the enclosed form and forward it to the Assistant Regional Commissioner, Appellate, 1250 Subway Terminal Building, 417 South Hill Street, Los Angeles 13, California. The signing and filing of this form will expedite

the closing of your returns by permitting an early assessment of the deficiencies, and will prevent the accumulation of interest, since the interest period terminates 30 days after receipt of the form, or on the date of assessment, or on the date of payment, whichever is earliest.

Very truly yours,

T. COLEMAN ANDREWS,
Commissioner of Internal
Revenue;

By,
Associate Chief, Appellate
Division.

Enclosures:

Statement.

Form 1276.

Agreement Form.

Ap :LA :AA-EWM
90D-FNG

Statement

Joe L. Schmitt, Jr., and Helen M. Schmitt,
(Husband and Wife),
8540 N. Central Avenue,
Phoenix, Arizona.

Tax Liability for the Taxable Years Ended December 31, 1949,
December 31, 1950, and December 31, 1951

Year		Deficiency
1949	Income Tax	\$ 31.44
1950	Income Tax	9,357.72
1951	Income Tax	2,643.40
Totals		<hr/> \$12,032.56

In making this determination of your income tax liability, careful consideration has been given to your protest dated June 14, 1954, and to the statements made at the conferences held on November 19, 1954, and July 29, 1955.

A copy of the letter and a copy of this statement have been mailed to your representative, Mr. Robert Ash, 1921 Eye Street, N.W., Washington 6, D. C., in accordance with the authority contained in the power of attorney executed by you.

Year 1949

Adjustment to Net Income

Net income as disclosed by the return		
(Loss)		(\$ 797.68)
Unallowable deduction and additional income:		
(a) Adjustment of interest income	\$ 27.49	
(b) Adjustment of deduction for medical expenses	275.57	
(c) Adjustment of ordinary income from contracts covering Exact-O-Matic franchises	9,465.02	9,768.08
	<hr/>	<hr/>
Total		\$8,970.40
Nontaxable income and additional deductions:		
(d) Elimination of long-term capital gain on sales of Exact-O-Matic franchises		3,981.02
		<hr/>
Net income as revised		\$4,989.38

Explanation of Adjustments

(a) It has been determined that interest of \$27.49 earned on a savings account was omitted from your return.

(b) Your net income is increased \$275.57, representing disallowance of deduction for medical expenses. Computation of adjustment is shown below:

Total medical expenses \$523.47

Adjusted gross income as shown by the return	\$ 884.90
---	-----------

Add:

Net increase in income due to consider- ing gain on sales of Exact-O-Matic franchises as ordinary income in lieu of long-term capital gain	\$5,484.00
---	------------

Increase in interest income	27.49	5,511.49
-----------------------------------	-------	----------

Adjusted gross income as revised	\$6,396.39
--	------------

Total medical expenses.....	\$523.47
-----------------------------	----------

Less:

5% of adjusted gross income as revised of \$6,396.39..	319.82
--	--------

Allowable deduction for medical expenses.....	\$203.65
---	----------

Deduction for medical expenses claimed in your return....	479.22
---	--------

Increase in net income.....	\$275.57
-----------------------------	----------

(c) Your net income is increased \$9,465.02, representing adjustment of ordinary income from the contracts covering Exact-O-Matic franchises. Computation of adjustment is shown below :

Selling price of Exact-O-Matic franchises shown by your return.....	\$7,965.02
--	------------

Sales of franchises omitted from your return.....	1,500.00
---	----------

Ordinary income from sales of Exact-O-Matic franchises	\$9,465.02
---	------------

Ordinary income from sales of Exact-O-Matic franchises as shown by the return.....	None
---	------

Increase in net income.....	\$9,465.02
-----------------------------	------------

(d) Your net income is decreased \$3,981.02, representing elimination of capital gain reported in your return from sales of Exact-O-Matic franchises.

Income from the contracts covering Exact-O-Matic franchises is held to be ordinary income in lieu of capital gain as reported in your return.

(Year 1949)

Computation of Tax

Net income	\$4,989.38
Less: 8 exemptions at \$600.00 each.....	4,800.00
<hr/>	
Income subject to tentative tax.....	\$ 189.38
One-half of income subject to tentative tax.....	\$ 94.69
Tentative tax on \$94.69.....	\$ 18.94
Less: 17% of \$18.94.....	3.22
<hr/>	
Balance	\$ 15.72
Total income tax—twice the above balance.....	\$ 31.44
Correct income tax liability.....	\$ 31.44
Income tax liability disclosed by the return, Account No. 8560595, Arizona District.....	None
<hr/>	
Deficiency in income tax.....	\$ 31.44

(Year 1950)

Adjustment to Net Income

Net income as disclosed by the return....		\$ 7,478.65
Unallowable deduction and additional income:		
(a) Adjustment of interest income....	\$ 12.74	
(b) Elimination of deduction for tabulating machine rental.....	2,268.20	
(c) Adjustment of deduction for medical expenses	458.99	
(d) Adjustment of ordinary income from contracts covering Exact- O-Matic franchises	44,500.00	47,239.93
<hr/>		<hr/>
Total		\$54,718.58
Nontaxable income and additional deductions:		
(e) Elimination of long-term capital gain on sales of Exact-O-Matic franchises		17,057.50
<hr/>		<hr/>
Net income as revised.....		\$37,661.08

Explanation of Adjustments

(a) It has been determined that interest of \$12.74 earned on a savings account was omitted from your return.

(b) It has been determined that expense of \$2,268.20 incurred for the rental of tabulating equipment is deducted by the Exact-O-Matic System, Inc.; therefore the deduction of \$2,268.20 claimed in your return is being disallowed.

(c) Your net income is increased \$458.99, representing disallowance of deduction for medical expenses. Computation of adjustment is shown below:

Total medical expenses.....		\$ 1,063.24
Adjusted gross income as shown by the return		\$ 9,759.99
Add:		
Net increase in income due to considering gain on sales of Exact-O-Matic franchises as ordinary income in lieu of long-term capital gain.....	\$27,442.50	
Increase in interest income.....	12.74	
Disallowance of deduction for rental of tabulating machine equipment.....	2,268.20	29,723.44
Adjusted gross income as revised.....		\$39,483.43
Total medical expenses.....		\$ 1,063.24
Less: 5% of adjusted gross income as revised of \$39,483.43.....		1,974.17
Allowable deduction for medical expenses.		None
Deduction for medical expenses claimed in your return.....		458.99
Increase in net income.....		\$ 458.99

(d) Your net income is increased \$44,500.00, representing adjustment of ordinary income from contracts covering Exact-O-Matic franchises. Computation of adjustment is shown below:

Selling price of Exact-O-Matic franchises shown by your return.....	\$45,500.00
Less: Fees paid for promoting sale of franchises in the State of Georgia.....	1,000.00
	<hr/>
Ordinary income from sales of Exact-O- Matic franchises	\$44,500.00
Ordinary income from sales of Exact- O-Matic franchises as shown by the return	None
	<hr/>
Increase in net income.....	\$44,500.00

(e) Your net income is decreased \$17,057.50, representing elimination of capital gain reported on your return from sales of Exact-O-Matic franchises.

Income from the contracts covering Exact-O-Matic franchises is held to be ordinary income in lieu of capital gain as reported in your return.

Computation of Tax

Net income	\$37,661.08
Less: 8 exemptions at \$600.00 each.....	4,800.00
	<hr/>
Income subject to tentative tax.....	\$32,861.08
One-half of income subject to tentative tax	\$16,430.54
Tentative tax on \$16,430.54.....	\$ 5,415.27
Less: 13% of \$400.00.....\$ 52.00	
9% of \$5,015.27..... 451.37	503.37
	<hr/>
Balance	\$ 4,911.90
Total income tax—twice the above balance	\$ 9,823.80
Correct income tax liability.....	\$ 9,823.80
Income tax liability disclosed by the return, Account No. 9080516, Arizona District	466.08
	<hr/>
Deficiency in income tax.....	\$ 9,357.72

(Year 1951)

Adjustment to Net Income

Net income as disclosed by the return.....		\$ 7,042.03
Unallowable deduction and additional income:		
(a) Adjustment of interest income.....	\$ 1.41	
(b) Disallowance of deduction for repairs to two houses.....	2,008.87	
(c) Adjustment of deduction for medical expenses	480.89	
(d) Adjustment of ordinary income from contracts covering Exact-O-Matic franchises	12,800.00	15,291.17
	<hr/>	<hr/>
Total		\$22,333.20
Nontaxable income and additional deductions:		
(c) Elimination of long-term capital gain on sales of Exact-O-Matic franchises		4,888.00
		<hr/>
Net income as revised.....		\$17,445.20

Explanation of Adjustments

(a) It has been determined that interest of \$1.41 earned on a savings account was omitted from your return.

(b) It has been determined that repairs to two houses in the amount of \$2,008.87 represent a capital expenditure, and the expense deduction claimed in your return in the amount of \$2,008.87 is therefore disallowed.

(c) Your net income is increased \$480.89, representing disallowance of deduction for medical expenses. Computation of adjustment is shown below:

Total medical expenses.....	\$ 1,003.14
Adjusted gross income as shown by the return	\$10,445.43

Add:

Net increase in income due to considering gain on sales of Exact-O-Matic franchise as ordinary income in lieu of long-term capital gain.....\$ 7,912.00

Increase in interest income.....	1.41	
Disallowance of deduction for repairs to two houses.....	2,008.87	9,922.28
		<hr/>
Adjusted gross income as revised.....		\$20,367.71
Total medical expenses.....		\$ 1,003.14
Less: 5% of adjusted gross income as revised of \$20,367.71.....		1,018.39
		<hr/>
Allowable deduction for medical expenses		None
Deduction for medical expenses claimed in your return		480.89
		<hr/>
Increase in net income.....	\$	480.89

(d) Your net income is increased \$12,800.00, representing adjustment of ordinary income from the contracts covering Exact-O-Matic franchises. Computation of adjustment is shown below:

Selling price of Exact-O-Matic franchises shown by your return.....	\$12,800.00
Ordinary income from sales of Exact-O- Matic franchises	\$12,800.00
Ordinary income from sales of Exact-O- Matic franchises as shown by the return	None
	<hr/>
Increase in net income.....	\$12,800.00

(e) Your net income is decreased \$4,888.00, representing elimination of capital gain reported on your return from sales of Exact-O-Matic franchises.

Income from the contracts covering Exact-O-Matic franchises held to be ordinary income in lieu of capital gain as reported in your return.

Computation of Tax

Net income	\$17,445.20
Less: 6 exemptions at \$600.00 each.....	3,600.00
<hr/>	
Income subject to tax.....	\$13,845.20
One-half of income subject to tax.....	\$ 6,922.60
Normal tax and surtax on \$6,922.60.....	\$ 1,672.78
Total income tax—twice the above normal tax and surtax	\$ 3,345.56
Correct income tax liability.....	\$ 3,345.56
Income tax liability disclosed by the return, Account No. AF 9 105, Arizona District.....	702.16
<hr/>	
Deficiency in income tax.....	\$ 2,643.40

Received and filed November 25, 1955, T.C.U.S.

Served November 28, 1955.

[Title of Tax Court and Cause.]

ANSWER

The Commissioner of Internal Revenue, by his attorney, John Potts Barnes, Chief Counsel, Internal Revenue Service, for answer to the petition of the above-named taxpayers, admits, denies and alleges as follows:

I.

Admits the allegations contained in paragraph I of the petition.

II.

Admits the allegation contained in paragraph II of the petition.

III.

Admits the allegations contained in paragraph III of the petition.

IV.

Denies the allegations of error contained in paragraph IV of the petition and all subparagraphs thereof.

V. 1, 4, 5, 8, 9, 11, 12, 13, and 14.

Admits the allegations contained in subparagraphs 1, 4, 5, 8, 9, 11, 12, 13, and 14 of paragraph V of the petition.

V. 2, 3, 6, 7, and 10.

Denies the allegations contained in subparagraphs 2, 3, 6, 7, and 10 of paragraph V of the petition.

VI.

Denies generally and specifically each and every allegation contained in the petition not hereinbefore specifically admitted, qualified, or denied.

Wherefore, it is prayed that petitioners' deficiencies in income tax and the additions to the tax for the taxable years 1949, 1950 and 1951 in the amounts set forth in the statutory notice of deficiency be, in all respects, approved.

/s/ JOHN POTTS BARNES,
Chief Counsel, Internal
Revenue Service.

Filed January 24, 1956, T.C.U.S.

[Title of Tax Court and Cause.]

AMENDMENT TO ANSWER

Comes now the Commissioner of Internal Revenue, by his attorney, Nelson P. Rose, Chief Counsel, Internal Revenue Service, and for amendment to the answer filed in this case, alleges as follows:

V.

1. Denies that the petitioner, Joe L. Schmitt, Jr., was the owner of any patent recognized or granted by the United States Patent Office during any of the taxable years 1949, 1950, and 1951, involved herein.

Wherefore, it is prayed that petitioners' deficiencies in income tax and the additions to the tax for the taxable years 1949, 1950 and 1951 in the amounts set forth in the statutory notice of deficiency be, in all respects, approved.

/s/ NELSON P. ROSE,
Chief Counsel, Internal
Revenue Service.

Filed March 25, 1957, T.C.U.S.

Entered April 2, 1957.

Served April 2, 1957.

[Title of Tax Court and Cause.]

STIPULATION OF FACTS

It is hereby stipulated for the purpose of this proceeding that the following statements shall be

accepted as true without prejudice to the right of either party to introduce other evidence not inconsistent therewith:

1. Petitioners are husband and wife, whose residence is 8540 North Central Avenue, Phoenix, Arizona. The returns for the years here involved were filed with the Collector of Internal Revenue, Phoenix, Arizona.

2. The petitioner, Joe L. Schmitt, Jr., was the inventor and sole owner of certain applications for patents, copyrights and registrations referred to under the trade name "Exact-O-Matic System." The System is an accounting method, described as being an automatic mechanical process, utilizing tabulating cards to evaluate single entry information, which produces double entry bookkeeping and accounting statements.

3. During the years 1949, 1950 and 1951, petitioner, Joe L. Schmitt, Jr., entered into 11 agreements entitled "Territorial Assignment of Patent." Photostatic copy of an agreement dated July 17, 1950, is attached as a sample agreement and marked Exhibit 1-A.

4. Attached hereto and marked Exhibit 2-B is a photostatic copy of an agreement entitled "District Franchise," dated July 17, 1950, as a sample of said agreements.

5. Attached hereto and marked Exhibit 3-C is a schedule entitled "Receipts of money by Joe L.

Schmitt, Jr., under the agreements referred to in paragraphs 3 and 4 of stipulation of facts.”

6. Attached hereto and marked Exhibit 4-D is a photostatic copy of an agreement between Joe L. Schmitt, Jr., and Exact-O-Matic Systems, Inc., an Arizona Corporation, dated only 1950.

7. For the year 1951, the Notice of Deficiency disallowed \$2,008.87, which had been deducted for alleged repairs on two homes. There is no issue with respect to the payment of the sum of \$2,008.87 by petitioner. The issue for the Court to decide is whether such expenditures was for repairs or constituted capital improvements to property. The general nature of such items is shown in Exhibit 5-E, attached hereto.

8. In each of the years here involved, the petitioner incurred total medical expenses as follows:

1949\$	523.47
1950	1,063.24
1951	1,003.14

It is agreed that the amount allowable may be determined under Rule 50 computation.

/s/ ROBERT ASH,

Attorney for Petitioner.

/s/ NELSON P. ROSE,

Chief Counsel, Internal Revenue Service, Counsel
for Respondent.

EXHIBIT 1-A

Territorial Assignment of Patent

This Agreement made and entered into this 17th day of July, 1950, by and between Joe L. Schmitt, Jr., of the City of Phoenix, County of Maricopa, State of Arizona, Party of the First Part, hereinafter designated "Assignor," and Howard N. Dietrich and J. W. Oswald, d/b/a Dietrich, Oswald & Co., Party of the Second Part, hereinafter designated "Assignee."

Witnesseth:

In consideration of the sum of Ten Dollars (\$10.00), and other good and valuable consideration, paid to Assignor by Assignee, the parties have agreed as follows:

(1) Assignor covenants that he is the owner of the entire right, title and interest in and to those certain United States Patents, Patents pending, Registrations and Copyrights hereinafter referred to as "Exact-O-Matic System," and that he has not mortgaged, pledged, hypothecated, or otherwise encumbered the same or any right, title, or interest therein in any manner whatsoever.

(2) Assignor hereby grants unto Assignee the exclusive right, privilege and franchise to use and sell the said Exact-O-Matic System (District, Unit A and Unit B), throughout the Territorial area described as follows:

All of the State of Oregon in addition to the counties of Cowlitz, Clark, Franklin, Walla Walla, Columbia, and Benton of the State of Washington, and to use, employ, and operate any and all methods, procedures, and processes covered by said Patents, Patents pending, Registration, and Copyrights, within and throughout the Territorial Area, and also any reissues or extensions thereof during the entire term of said Patents, Registrations, and Copyrights, subject, however, to the conditions and covenants hereinafter set forth. For the purposes of this agreement, the designation "Patent" is hereby defined to mean Patents, Patents pending, Registrations, Copyrights, and any oral or written agreement between the said "Assignor" and Remington-Rand, Inc., a Delaware Corporation, heretofore or hereinafter issued to Assignor, relating to double entry machine bookkeeping methods, procedures, and processes.

(3) Assignee agrees to use their best efforts to establish and/or sell District, Unit A and Unit B franchises, throughout the Territorial area, and to that end agrees to divide the Territorial area into Districts, and to grant licenses to operate said Exact-O-Matic System in said District, upon the conditions hereinafter set forth.

Assignee agrees to create and establish District No. 1 Franchise, either in their own name or by the assignment of the District to a corporation controlled by them within thirty (30) days from the date of this agreement, such District to embrace

the State of Oregon, Counties of Multnomah, Washington, Clackamas, Clatsop, Marion, Polk, Columbia, Yamhill, Tillamook and Lincoln, and the State of Washington, Counties of Clark and Cowlitz.

It is further understood and agreed that Assignee shall produce a minimum of sales of District Licenses, according to the following schedule:

On or before one year from the date of this Territorial Assignment, Assignee shall establish or sell a second District License, and every six months thereafter one additional District License, until a total of three District Licenses have been sold. The attached form of District License marked "Schedule A" shall be used in establishing said District Franchises.

Any sale of a District License, Unit "A" or Unit "B" License, to use said System shall be subject to approval of the Assignor, insofar as the competency and financial ability and integrity of the franchise applicant is concerned. All District License, Unit "A" and Unit "B" Licenses, shall be granted by the Assignee, subject to the conditions of that form of license marked "Schedule A, B or C."

(4) Assignee agrees that in granting Licenses for District, Unit "A" or Unit "B" Licenses, they will use the same form of contract hereto attached

(Schedules A, B, C) unless the parties hereto shall mutually agree upon a different form of contract.

The conditions of paragraph three (3) and four (4), as above stated, are for the protection of all other Territorial Assignees and to further insure an adequate sale price to the Assignor.

(5) Assignee shall have the right to fix prices for the sale of all Licenses within their territory, but agrees not to sell any District License for less than three thousand dollars (\$3,000.00), excepting, however, the assignment of District No. 1 to a controlled corporation; or sell any Unit "A" or Unit "B" Licenses for less than one thousand dollars (\$1,000.00) without approval of Assignor. Assignee shall also have the right to fix the price of Exact-O-Matic service to be made by District licensees, Unit "A" and Unit "B" licensees, to licensees customers for such services rendered.

(6) Assignee shall collect the sale price of each franchise granted within the territory and shall collect all royalties for the use of said Exact-O-Matic System, issued and granted by it pursuant to this agreement, and that when received it will pay to Assignor and/or his executors, administrators, and assigns, as his share of the business transacted within the territory herein described, the following:

(a) Sixty per cent (60%) of the sales price of each District License, Unit "A" or Unit "B" Li-

censes for said System and service, within the territory described herein; and in addition thereto;

(b) Fifty per cent (50%) of the gross royalties collected from such territory by Assignee, which royalties shall not be less than ten per cent (10%) of the gross fees charged by licensees for service under said license. Assignee to retain fifty per cent (50%) thereof as its share.

Assignee agrees to pay to Assignor his share of sales of District, Unit "A" and Unit "B" Licenses, and royalties by the fifteenth of each month for the preceding month's sales and royalties, and to accompany such payment with a detailed report of such receipts, including a duplicate of orders written for new business by the licensees within the said territory, and agrees that Assignor shall have access to the books and records of Assignee at all reasonable times for audit and examination.

(7) Assignee agrees to supervise all District, Unit "A" and Unit "B" Franchises and licenses in their territory and to use their best efforts and ability to promote and preserve the said business of each District, Unit "A" and Unit "B" licenses. Assignee further agrees to maintain a uniform type of service in conformity with the standard practice and in the manner prescribed by the methods, procedures, and process of Exact-O-Matic System, in all licensed operations within the territorial area.

(8) Upon the failure of the Assignee to make payment of Assignor's share of the aforesaid sales

of licenses and royalties for a thirty-day period after the time for which they are due, as herein provided, Assignor shall have the right to terminate this Territorial Assignment by serving a written notice upon Assignee, and Assignee shall have thirty days from date of such notice within which to cure any default hereunder and should such default not be cured within said thirty-day period, this agreement shall become null and void, and all monies heretofore paid by Assignee shall be retained as liquidated damages for breach of this agreement; provided, however, that Assignee shall not be discharged from any liability to Assignor for any license fees or royalties due at the time of the termination of this agreement; and provided, further, that a termination of this agreement for any reason shall not terminate any licenses theretofore granted by Assignee but shall operate as an assignment to Assignor, of all of Assignee's interest in such license, but no licensee shall be charged with notice of such assignment until receipt of written notice thereof by Assignor.

(9) Assignor agrees to arrange, without any further charge, a course of instruction and to fully train and instruct at his office in Phoenix, Arizona, all personnel of Assignee required to operate the equipment, methods, and procedures as employed and used by and under Exact-O-Matic System, in said District Number One License, provided, however, that all expenses of such personnel, including transportation to and from Phoenix, Arizona, and

their living expenses during the course of training, shall be without cost to Assignor.

Assignee agrees to arrange and give a course of training and instructions to the accountant and tabulating operator in Exact-O-Matic System as outlined. Said course shall be given to the personnel of each District Franchise for a period of not less than thirty days, beginning with the personnel of the Second District Franchise.

Assignee further agrees to arrange and give a course of training and instructions to the accountant and tabulating operator in Exact-O-Matic System as outlined for the personnel of Unit "A" and Unit "B" Franchises, and shall arrange with said Franchise Holders compensation for such service rendered in training said personnel and for such other service as may be necessary in the installation of said Unit "A" and Unit "B" Franchises.

(10) Assignor agrees to use his best efforts with manufacturers of necessary equipment to procure same for use by Assignee and its licensees, and agrees to procure such equipment designed and equipped with all devices necessary to process the work required under Exact-O-Matic procedure within three months of date order is accepted by Remington-Rand therefor, by such Assignee or its licensees.

(11) Assignor agrees to furnish all sample forms now or hereafter in use under Exact-O-Matic

procedure together with a complete Manual of Instructions for use by Assignees and its licensees.

(12) Assignor agrees to defend at his own expense any litigation arising within or without the territorial area challenging his right to use any of the aforesaid patents to the end that all rights secured to Assignee herein may be preserved.

(13) Assignee shall select its own personnel and employees and have complete dominion and control over them, and Assignor shall have no dominion or control over any of said employees except such as may be necessary in the course of training provided for in paragraph numbered "9" of this agreement, it being the intent and purpose of this paragraph to evidence the fact that Assignee is the territorial owner of the patent, operating completely independent of Assignor. Assignee agrees to pay all taxes levied or assessed against them, including industrial or security taxes for their employees, and to file all necessary reports and returns therefor.

Whenever any license shall be granted under this Assignment, the licensee thereunder shall be the territorial owner of the patent, having complete dominion and control over his or its employees and shall accept full responsibility for all taxes levied or assessed by reason of the operation of such license and shall file all necessary returns required therefor.

(14) Assignee shall have the right to grant

licenses for the full term of any of said patents and agreements, or for a shorter period, and if at any time or from time to time, any license or licenses so granted shall become terminated for any reason, Assignee shall have the right to grant such other licenses with respect to such district or districts and to increase or decrease the area thereof, as it may deem advisable, subject to the provision of paragraph three (3) of this Agreement.

(15) Assignee agrees not to assign or dispose of this Territorial Assignment in whole or in part without the written consent of Assignor.

(16) Time is the essence of this agreement.

(17) This agreement shall extend to and bind the parties hereto, their respective heirs, personal representatives, successors, and assigns.

In Witness Whereof the parties hereto have caused this Agreement to be executed the day and year first above written.

/s/ JOE L. SCHMITT, JR.,
Party of the First Part,
Assignor.

/s/ HOWARD N. DIETRICH,

/s/ J. W. OSWALD,
Party of the Second Part,
Assignee.

County of Multnomah,
State of Oregon.

Before me, Donna R. Reames, a Notary Public in and for the County and State aforesaid, personally appeared Howard N. Dietrich and J. W. Oswald, known to me or satisfactorily proven to be the persons whose names are subscribed to the within instrument, and acknowledged that they executed the same for the purpose therein contained.

In Witness Whereof, I hereunto set my hand and official seal.

[Seal] /s/ DONNA R. REAMES,
Notary Public.

My Commission Expires Feb. 7, 1954.

County of Maricopa,
State of Arizona.

Before me, Tony Duran, a Notary Public in and for the County and State aforesaid, personally appeared Joe L. Schmitt, Jr. (known to me or satisfactorily proven), to be the person whose name is subscribed to be the within instrument, and acknowledged that he executed the same for the purpose therein contained.

In Witness Whereof, I hereunto set my hand and official seal.

[Seal] /s/ TONY DURAN,
Notary Public.

District Franchise

This Agreement made and entered into this 17th day of July, 1950, by and between Howard N. Dietrich and J. W. Oswald, d/b/a Dietrich, Oswald & Co., Party of the First Part, hereinafter designated "Franchise Holder," and Exact-O-Matic, Inc., Party of the Second Part, hereinafter designated "Licensee."

Witnesseth:

That in consideration of the sum of Ten Dollars (\$10.00), and other good and valuable consideration paid to Franchise Holder by Licensee, and the royalties, covenants, and conditions hereinafter contained on the part of the Licensee to be paid, kept, and performed, the Franchise Holder does hereby grant unto the Licensee the exclusive right and License to use within the following-described area: Counties of Multnomah, Washington, Clackamas, Clatsop, Marion, Polk, Columbia, Yamhill, Tillamook and Lincoln, in the State of Oregon, and Counties of Clark and Cowlitz in the State of Washington, hereinafter called District Number One (# 1), (and in no other place or places), those certain double entry machine bookkeeping methods, procedures, and processes known as "Exact-O-Matic System," covered by the Patents, Patents Pending, Copyrights, and Registrations; and to use, employ and operate any and all methods, procedures and processes covered by said Patents, Patents Pending, Copyrights, and Registra-

tions within and throughout the said-described district, and also any reissue or extensions thereof during the entire term of said Patents, Copyrights and Registrations, unless this License should be sooner terminated as hereinafter set forth. The word "Patent" as used herein shall mean Patents, Patents Pending, Copyrights, Registrations, and any agreements, oral or otherwise, between the said Patent Owner and Remington-Rand, Inc., a Delaware Corporation, heretofore or hereafter issued to Joe L. Schmitt, Jr., of Phoenix, Arizona, from whom the Franchise Holder holds an exclusive franchise covering the Territorial area of the State of Oregon, and the Counties of Cowlitz, Clark, Franklin, Walla Walla, Columbia, and Benton, in the State of Washington, pursuant to that certain agreement, dated July 17, 1950, between the said Joe L. Schmitt, Jr., and the Franchise Holder.

This Franchise is made upon the foregoing and the following terms, covenants, and conditions, all and each of which the Licensee, on behalf of their successors and assigns, covenants and agrees with the Franchise Holder and their successors and assigns, to keep and perform.

The Licensee covenants and agrees:

- (1) To pay to the Franchise Holder monthly, for the use of said procedures, processes, copyrights, and registrations in said District, a License fee equal to ten per cent (10%) of the gross fees charged by Licensee for services rendered by it

under said Exact-O-Matic System for each preceding calendar month, said sum of ten per cent (10%) to be paid not later than ten days after the close of each calendar month, it being understood and agreed that said monthly payments shall not be less than the minimum royalties provided to be paid under the succeeding paragraph four (4) hereof. Licensee further agrees to keep exact and correct records of the fees charged by it for said service and to render Franchise Holder a monthly account thereof, together with payment of said ten per cent (10%) due as herein provided at the office of Franchise Holder in Portland, Oregon.

(2) To make available to Franchise Holder and said Joe L. Schmitt, Jr., their agents, or employees, at all reasonable hours, its books of account and records, for the purpose of examining and auditing the same.

(3) To render said service in conformity with the standard practice and in the manner prescribed by the methods, procedures, and process of Exact-O-Matic System, and to allow Franchise Holder the right to inspect and supervise the Licensees' operation of Exact-O-Matic System to determine that said service is being rendered in accordance with the standard practice and method prescribed by Exact-O-Matic System.

Not to render or contract to render any service under said Exact-O-Matic System which would, in

any manner, violate any law or ordinance in force within said district.

(4) Should ten per cent (10%) of the gross fees charged by the Licensee as provided in the preceding paragraph one (1) hereof, fail to equal the amounts set forth in the following schedule of minimum royalties, the Licensee shall pay to Franchise Holder in addition monthly, as aforesaid, the amount by which said ten per cent (10%) of said gross fees falls short of the said minimum royalties. Following is the schedule of minimum royalties:

For the first 3 months, after the equipment described in paragraph 5 hereof has been installed in Licensee's place of business, not less than \$25.00 per month.

For the next 3 months, not less than \$50.00 per month.

For the next 3 months, not less than \$75.00 per month.

For the next 3 months, not less than \$100.00 per month.

For the next 3 months, not less than \$150.00 per month.

For the next 3 months, not less than \$200.00 per month.

Thereafter, through the term of this License, not less than \$250.00 per month.

(5) To forthwith place an order with Remington-Rand, Inc., for either group A or B equipment, adapted for Exact-O-Matic System.

Group A

One Model 3080—Tabulator.

One Model 306-1—Key Punch.

One Model 310—Multi-Control Reproducing
Punch.

One Model 220—Sorter.

Group B

One Model 265—Tabulator.

One Model 212—Key Punch.

One Model 310—Multi-Control Reproducing
Punch.

One Model 220—Sorter.

(6) Not to assign or transfer said License or any interest therein without the written consent of Franchise Holder, and approval of Patent owner. In the event said Licensee shall demise during the life of this agreement, all of said licensee's interest in said franchise shall inure to his estate and upon proper showing to the Franchise Holder and Patent Owner by said licensee's estate the same may be disposed of to competent parties who are qualified to conduct the business of said district licensee subject to approval by Franchise Holder and Patent Owner.

(7) To furnish to Franchise Holder upon its request, trade analyses of general business conditions as reflected from the operation and use of Exact-O-Matic System within the district served, upon forms provided by the Franchise Holder for the purpose of compiling trade information, said

trade information to be distributed to the users of Exact-O-Matic System within and without the district served by the Licensee. Franchise Holder agrees that if said trade analyses are published, said Licensee may purchase at cost such publications for general distribution within the district covered by this License.

(8) To furnish a surety bond in a company selected by Franchise Holder in the sum of One Thousand Dollars (\$1,000.00), to guarantee payment of the royalties and fees as herein provided.

(9) To enter all orders for Exact-O-Matic service taken by Licensee in quadruplicate, two copies to be mailed forthwith by Licensee to Franchise Holder, one to be given to Customer, and the original to be retained by Licensee, which said orders shall be numbered and all numbers accounted for.

(10) In the event Licensee shall perform and render service for a client within his district area which was secured directly through the efforts of another district licensee, then said licensee rendering the service shall make some satisfactory arrangement with the licensee securing the client in the manner of compensation. In the event said licensees shall fail to make satisfactory arrangements as between themselves, then Franchise Holder shall determine the compensation said licensee securing the client shall receive.

(11) It is mutually understood and agreed that all payments required to be made by the Licensee

to the Franchise Holder shall become due and payable on the 10th day of each calendar month; and if said payment or payments are not made within twenty (20) days after said due date, and if the Licensee fails to make satisfactory arrangements with the Franchise Holder for an extension of time in which to make said payment or payments, or upon the failure of Licensee to keep and perform any of the other terms and conditions required by the said Franchise Holder to be kept and performed, the said Franchise Holder may terminate this franchise and license by written notice to Licensee setting forth the terms and conditions which the said Licensee has failed to comply with; provided, however, the Licensee shall have twenty (20) days from the date of receipt of such notice within which to correct any default then existing and to comply with the terms and conditions hereinabove set forth; and, should such default not be corrected, and should the terms and conditions as hereinabove set forth not be complied with within the said twenty-day period, then at the expiration thereof this franchise and license shall become null and void, in which event all monies theretofore paid by Licensee to Franchise Holder shall be retained by Franchise Holder as liquidated damages for breach of this agreement, but Licensee shall not thereby be discharged from any liability to pay Franchise Holder any monies due at the time of such termination.

(12) Time shall be the essence of this Agreement.

In Witness Whereof the parties hereto have caused this Agreement to be executed the day and year first above written.

/s/ HOWARD N. DIETRICH,

/s/ J. W. OSWALD,

First Party, Franchise
Holder.

EXACT-O-MATIC, INC.,

By /s/ J. W. OSWALD,

Pres., Licensee.

County of Multnomah,

State of Oregon.

Before me, Donna Reames, a Notary Public, in and for the County and State aforesaid, personally appeared Howard N. Dietrich, and J. W. Oswald, known to me (or satisfactorily proven) to be the persons whose names are subscribed to the within instrument, and acknowledged that they executed the same for the purpose therein contained.

In Witness Whereof I hereunto set my hand and official seal.

[Seal] /s/ DONNA R. REAMES,
Notary Public.

My Commission Expires Feb. 7, 1954.

County of Multnomah,
State of Oregon.

Before me Donna Reames, a Notary Public, in and for the County and State aforesaid, personally appeared J. W. Oswald, President of Exactomatic, Inc., of Oregon, known to me (or satisfactorily proven) to be the person whose name is subscribed to the within instrument, and acknowledged that they executed the same for the purpose therein contained.

In Witness Whereof I hereunto set my hand and official seal.

[Seal] /s/ DONNA R. REAMES,
Notary Public.

My Commission Expires Feb. 7, 1954.

Approval of Patent Owner

This District License is approved this 4th day of October, 1950, pursuant to Paragraph three (3) of that certain Territorial Franchise entered into on the 17th day of July, 1950, by and between Joe L. Schmitt, Jr., of the City of Phoenix, County of Maricopa, State of Arizona, designated "Owner," and Howard N. Dietrich and J. W. Oswald, designated "Franchise Holder."

/s/ JOE L. SCHMITT, JR.,
Owner.

EXHIBIT 3-C

Schedule of Receipts of Money
by Joe L. Schmitt, Jr., Under Agreements
Referred to in Paragraphs No. 3 & No. 4
of Stipulation of Facts

From Territorial Agreements—1949:

	Amount Received	Alleged Expenses	Cost	Net Amount
California	\$ 4,965.02		\$1.00	\$ 4,964.02
Colorado	1,500.00		1.00	1,499.00
Florida	1,500.00		1.00	1,499.00
<hr/>				
Total	\$ 7,965.02		\$3.00	\$ 7,962.02

From District Agreements by Territorial Holders—1949:

From Territorial Agreements—1950:

Northern California	\$ 1,000.00		\$1.00	\$ 999.00
Texas	5,000.00		1.00	4,999.00
Georgia	6,500.00	\$1,000.00	1.00	5,499.00
Oregon	5,000.00		1.00	4,999.00
Oklahoma	1,000.00		1.00	999.00
Southern California	13,500.00		1.00	13,499.00
New Mexico	1,000.00		1.00	999.00
Idaho	5,000.00		1.00	4,999.00
<hr/>				
Total	\$38,000.00	\$1,000.00	\$8.00	\$36,992.00

From District Agreements by Territorial Holders—1950:

Pittsburgh, Pa.	\$ 5,000.00		\$1.00	\$ 4,999.00
Tulsa, Oklahoma	2,500.00		1.00	2,499.00
<hr/>				
Total	\$ 7,500.00		\$2.00	\$ 7,498.00

From Territorial Agreements—1951:

Ohio	\$ 5,000.00		\$1.00	\$ 4,999.00
Georgia	2,000.00		1.00	1,999.00
New Mexico	4,000.00		1.00	3,999.00
<hr/>				
Total	\$11,000.00		\$3.00	\$10,997.00

From District Agreements by Territorial Holders—1951:

San Fernando, Calif.....	\$ 1,800.00		\$1.00	\$ 1,799.00
<hr/>				
Total	\$ 1,800.00		\$1.00	\$ 1,799.00

Agreement

This Agreement, made and entered this day of, 1950, by and between Joe L. Schmitt, Jr., of the City of Phoenix, County of Maricopa, State of Arizona, hereinafter called the Party of the First Part, and Exact-O-Matic System, Inc., a Corporation duly organized and existing by virtue of the laws of the State of Arizona, hereinafter called Party of the Second Part.

Witnesseth:

(1) Party of the First Part is the sole owner of the entire right, title and interest in and to those certain United States Patents, Patents pending, Registrations and Copyrights referred to under that certain trade name "Exact-O-Matic System," and that he has not mortgaged, pledged, hypothecated, or otherwise encumbered the same, or any right, title, or interest therein in any manner whatsoever.

(2) Party of the First Part hereby grants unto the Party of the Second Part, subject, however, to the conditions and covenants hereinafter set forth in this agreement, and subject further to the provisions and limitations contained in the Territorial District, Unit "A," Unit "B" and Unit "I" franchises issued or to be issued, the exclusive right, privilege and franchise to use the registered trade name Exact-O-Matic System as its corporate name, to promote the sale of Territorial franchises within and without the limits of the United States or its

possessions, and to supervise the operation of said Territorial franchises already established or to be established.

(3) Party of the Second Part agrees to use its best efforts to promote and sell Territorial franchises throughout the United States and its possessions, it being understood and agreed that Party of the Second Part shall produce a minimum of sales of Territorial franchises of not less than five in any one calendar year or until all 48 States of the United States of America are sold, providing, however, tabulating equipment is available. In the event said tabulating equipment is not available due to conditions beyond the control of the Party of the Second Part, then Party of the First Part shall waive this specific provision of this Agreement until such time as said equipment shall be available.

(4) Party of the Second Part agrees to use its best efforts in the supervision of those Territorial franchises already established and those territorial franchises to be established and further agrees to enforce and carry to completion the covenants and provisions contained in said Territorial franchises.

(5) Party of the Second Part agrees to arrange, without any charge, a course of instruction and to fully train and instruct the personnel of each Territorial franchise required to operate the tabulating equipment to be used in the Exact-O-Matic process

in accordance with the provisions of the Territorial franchise.

(6) Upon the failure of the Party of the Second Part to comply with the terms and provisions of this Agreement, Party of the First Part shall have the right to terminate this Agreement by serving a written notice upon the Party of the Second Part and Party of the Second Part shall have thirty days from date of such notice within which to cure any defect hereunder and should such defect not be cured within said thirty-day period, this agreement shall become null and void and all monies due at said time to Party of the Second Part from Party of the First Part shall be retained as liquidated damages for breach of this Agreement by Party of the First Part, provided, however, that Party of the Second Part shall not be discharged from any liability to Party of the First Part for any monies or advances made to Party of the Second Part by Party of the First Part.

(7) Party of the First Part agrees to pay to Party of the Second Part from the proceeds received from the sale of Territorial District, Unit "A," Unit "B," and Unit "I" franchises an amount equal to:

25% of the Net Sale Price for each Territorial Franchise.

15% of the Net Sale Price of each District Franchise.

15% of the Net Sale Price of each Unit “A” Franchise.

15% of the Net Sale Price of each Unit “B” Franchise.

15% of the Net Sale Price of each Unit “I” Franchise.

In addition to the amounts computed upon the basis of the above schedule, Party of the First Part agrees to pay to Party of the Second Part 25% of the royalties when received by Party of the First Part from the Territorial Franchise Holders, said royalty being ten per cent (10%) of the gross fees for all service rendered by the Exact-O-Matic System process in all of the classifications of franchises granted.

In accordance with the provisions of the Territorial Franchise granted by Party of the First Part (Section 6-b) gross royalties are divided as follows:

Party of the First Part.....	25%
Territorial Franchise Holder.....	50%
Party of the Second Part.....	25%

(8) Party of the Second Part agrees not to assign or dispose of, mortgage, pledge, hypothecate or otherwise encumber this agreement or future proceeds therefrom in whole or in part without the written consent of the Party of the First Part.

(9) Time is the essence of this Agreement.

(10) This Agreement shall extend to and bind

the parties hereto, their respective heirs, personal representatives, successors, and assigns.

In Witness Whereof the parties hereto have caused this Agreement to be executed the day and year first above written.

/s/ JOE L. SCHMITT, JR.,
Party of the First Part.

EXACT-O-MATIC SYSTEM,
INC.,

By /s/ ROBERT R. WEAVER,
Vice President;

By /s/ TONY DURAN,
Ass't Sec'y-Treas., Party of
the First Part.

Filed March 25, 1957, T.C.U.S.

In the Tax Court of the United States
Docket No. 60267

In the Matter of:

JOE L. SCHMITT, JR., Et Al.,
Petitioners,
vs.

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

PROCEEDINGS

Phoenix, Arizona, Monday, March 25, 1957

The above-entitled matter came on for hearing,
pursuant to calendar call, at 11:45 a.m.

Before: The Honorable Arnold Raum.

Appearances:

CARL F. BAUERSFELD,
Washington, D. C.,
Appearing on Behalf of the Petitioners.

E. C. CROUTER,
Bureau of Internal Revenue,
Appearing on Behalf of Respondent.

The Court: Are you ready to proceed?

The Clerk: Docket Number 60267, Joe L. Schmitt, Jr., et al.

Will you state your appearances?

Mr. Bauersfeld: Carl F. Bauersfeld for the Petitioner.

Mr. Crouter: E. C. Crouter for the Respondent.

Mr. Bauersfeld: This case involves a deficiency in income tax for the years 1949, 1950 and 1951, in the total amount of \$12,032.56 the detail of which is as follows:

1949	\$ 31.44
1950	9,357.42
1951	2,643.40
<hr/>	
Total	\$12,032.56

Question Presented

1. Petitioner Joe L. Schmitt, Jr., invented a mechanical process utilizing tabulating cards to evaluate single entry information, which produces

double entry bookkeeping and accounting statements. During the years involved he sold all of his rights in this system known as the Exact-O-Matic System in certain territories. Petitioners reported the proceeds from the sales as the sales of a capital asset. The Commissioner determined the proceeds from the sales to be ordinary income. The first question for decision is: (1) Were proceeds from the sales of the Exact-O-Matic System during the years involved taxable as capital gains or as ordinary income? [3*]

2. Under provisions of the sales agreements Petitioner was required to provide a course of instruction or training for the personnel of the purchasers of the Exact-O-Matic System. In 1950 and 1951 Petitioner contracted with a Corporation known as the Exact-O-Matic System, Inc., to furnish the instruction to the purchasers' machine operators. The Corporation furnished this service and was paid by Petitioner \$10,375.00 in 1950, and \$3,020.00 in 1951. The Commissioner has failed to allow Petitioner a deduction for this amount. The second question for decision is:

Were Petitioners entitled to a deduction of \$10,375.00 in 1950, and \$3,020.00 in 1951, for expenses in connection with the training program?

The third question is in the same category. In 1950 Petitioner paid \$2,268.20 as an additional amount on account of the training program. Were Petitioners entitled to a deduction for the \$2,268.20 as expense in connection with the training program?

*Page numbering appearing at top of page of original Reporter's Transcript of Record.

Petitioners purchased certain rental property in 1951 and made repairs thereon. The Commissioner has disallowed all the repairs in 1951 totaling \$2,008.87 on the ground that they were capital expenditures. The fourth question for decision is: Were they expenditures for repairs or did they constitute capital improvements?

We have stipulated Petitioner's medical [4] expenses for each year involved and that the amount of medical expenses allowable may be determined under the Rule 50 Computation.

Mr. Crouter: If the Court please, there is one little matter in the pleadings here. I furnished Counsel a copy and I don't believe there is a controversy about it. But the Government's answer in this case admitted among various other things Petitioner did own and have a patent that had been granted by the United States Patent Office. It has subsequently developed, according to my understanding, Petitioner didn't have the patent. I have prepared and filed with the Court Clerk a motion to allow the filing of the amendment to the answer and the amendment to the answer is merely a correction of that one little point.

Mr. Bauersfeld: I have no objection. I reserve the right to see whether or not I need to file a reply, if I have the time.

The Court: The motion will be granted.

Mr. Crouter: The issues have been stated by Counsel for Petitioner and I don't think need any reiteration. The basic issue, of course, is whether the amounts received constituted capital gain as re-

ported or whether it was ordinary income of this Petitioner who is and for many years has been an accountant, whether it was moneys received by the Petitioner under these documents which will be stipulated.

There are two basic documents, the first [5] running to territorial operators in other states and then the further agreement between territorial operators and district operators in the various states, mostly in the West, I believe.

The Petitioner's position is that the Petitioner by these agreements did not transfer real property rights completely irrevocable, etc., which would constitute capital assets or capital properties which the distributors in these various states, the territorial distributors particularly owned wholly and conclusively.

I believe the evidence will show the Petitioner continued to further this accounting bookkeeping process which he developed. He helped to train people in the various states and followed through and Respondent's position merely is this was ordinary income received by the Petitioner from his operations partly by circularizing and using and licensing out this method of bookkeeping and records with a double entry bookkeeping system on the Remington Rand bookkeeping machine. This is not a service where the Petitioner has invented a machine, merely use of an idea supervised and controlled and licensed out by the Petitioner who was and is an expert accountant.

The expense issue goes along with that in connection with the operations there, of course, the question is whether this Petitioner himself had additional ordinary and necessary expenses of this business. Now, it may be that the position of the Petitioner may be a little inconsistent and the expense [6] issue may turn to some extent upon the Court findings and disposition of exactly what the business of the Petitioner constituted.

The Court: Why were these expenses disallowed?

Mr. Crouter: In connection with the operations of the Corporation, the evidence will show and I am a little hazy because I am not certain of the Petitioner's position but he had a corporation which, as I understand, he and his family chiefly owned, the stock and various operations by that corporation were carried on.

The expenses have been disallowed as expenses of the Petitioner, but treated as expenses of the Corporation, I believe.

Mr. Bauersfeld: I believe that is correct.

Mr. Crouter: The other question of rentals, the question is whether these were capital additions and improvements rather than just ordinary repairs. The evidence will show they run to substantial matters, heavy plumbing, a lot of things that require lumber and were sizeable permanent additions, betterments of the real estate property.

The Court: That is the expense issue again. Is there capital outlay in relation to that?

Mr. Crouter: It is my understanding that related

to the operation of Petitioner's business. It goes to some extent on what was his business and what was the Corporation's [7] business. Where the line is drawn, I don't know. The evidence will show. The Petitioners have stipulated these two agreements particularly and also the net itemization of the items and the costs and amounts expended constituting the repairs or capital additions to the real estate property so the facts are pretty clear in that connection.

Mr. Bauersfeld: I might say Petitioner, too, would like to know the Government's theory on the disallowing of the expense issues. We claim we have not any clear cut definition of why these were disallowed.

Mr. Crouter: I believe Counsel refers to elimination for deduction for the tabulating machine.

Mr. Bauersfeld: The \$2,200 item, the \$10,000 and \$3,000.

Mr. Crouter: There it would run to the question of how much, if any, this Petitioner operated apart from his corporation. There is a very close knit unit in the handling of various business operations and I think that extends into what they call the licensing arrangement as well as the other part of the case.

The Court: Your position on that is, I take it, this Petitioner never made these expenses but they were made by his corporation.

Mr. Crouter: I believe that is correct or at least not expenses of this Petitioner in his business.

The Court: In one form or another the burden will be upon [8] the Petitioner to show he was en-

titled to the deduction and we will see whatever evidence is presented by him in that connection.

Mr. Bauersfeld: At this time, I would like to introduce stipulation of facts. We have the original of the exhibits through 5-E.

(Petitioner's Exhibits 1 through 5-E were marked for identification.)

The Court: The stipulation and accompanying exhibits will be received.

(Petitioner's Exhibits 1 through 5-E were received in evidence.)

Mr. Bauersfeld: May I call my first witness?

The Court: You may.

JOE L. SCHMITT, JR.

was called as a witness on behalf of the Petitioner and having been first duly sworn, was examined and testified as follows:

The Clerk: State your name for the record.

A. Joe L. Schmitt, Jr.

By Mr. Bauersfeld:

Q. What is your occupation?

A. Public Accountant.

Q. How long have you engaged in accounting work? A. Since 1925.

Q. Where have you engaged in accounting work?

A. In the state of Arizona and more particularly in and [90] around the city of Phoenix, Arizona.

(Testimony of Joe L. Schmitt, Jr.)

Q. Were you ever employed by the state of Arizona? A. I was.

Q. In what connection?

A. Beginning in 1925 I was employed as cost accountant and I was made auditor of the State Highway Department and continued in that job until sometime the latter part of 1928.

Q. Were you ever employed by any municipality or county in the state?

A. I was employed by Maricopa County as auditor beginning 1929 and continuing through until June of 1934.

Q. What is the principal town of Maricopa County? A. Phoenix, Arizona.

Q. Are you the holder of any copyrights, trade-marks or patent applications? A. I am.

Q. Will you briefly explain what copyrights, trade-marks and patent applications you own?

A. I have several copyrights pertaining to material in connection with the Exact-O-Matic mechanical process. I have two registered trademarks and trade names in connection with the Exact-O-Matic System. I have several publications in relation to the working of Exact-O-Matic System, more particularly a procedure manual covering the entire mechanical [10] process and, in addition to that, I have patent applications pending.

Q. I hand you a document and ask you to identify it.

A. That is a receipt from the Registrar of Copyrights No. 31946 of the United States of America

(Testimony of Joe L. Schmitt, Jr.)

covering a copyright on a title Automatic Machine Bookkeeping for Small Businesses, which is dated December 6, 1946.

(Petitioner's Exhibit No. 6 was marked for identification.)

Mr. Bauersfeld: I offer the document in evidence.

Mr. Crouter: I have no objection.

The Court: It may be admitted.

(Petitioner's Exhibit No. 6 was received in evidence.)

Mr. Bauersfeld: I have a number of photostatic copies and ask if I may offer the photostat.

The Court: You may offer the photostats themselves provided they are clearly legible. I would prefer copies more legible than the copy that accompanied the stipulation of facts. They are poor copies and hard on my eyes.

Q. (By Mr. Bauersfeld): I hand you another document and ask you to identify it?

A. That is a receipt issued by the Registrar of Copyrights, U. S. Government, covering material entitled "Selling Exact-O-Matic Systems" and dated December 27, 1948. [11]

(Petitioner's Exhibit No. 7 was marked for identification.)

Mr. Bauersfeld: I offer it in evidence.

Mr. Crouter: No objection.

(Testimony of Joe L. Schmitt, Jr.)

The Court: It may be admitted.

(Petitioner's Exhibit No. 7 was received in evidence.)

The Court: These are matters which might well have been the subject of stipulation.

Mr. Crouter: It is the first time I saw them, your Honor.

Mr. Bauersfeld: The first document you saw, Mr. Crouter, at the first conference.

Q. I hand you a pamphlet and ask you to identify it.

A. It is entitled "Selling Exact-O-Matic System" (Outline for Salesmen), copyrighted in 1948.

(Petitioner's Exhibit No. 8 was marked for identification.)

Mr. Bauersfeld: I offer this document in evidence.

Mr. Crouter: As far as I am concerned, this is the first time I have seen this document. I think it should have more foundation or give me a chance to examine it.

Mr. Bauersfeld: This is the document copy by one of the copyrights that has just been introduced. The purpose is to show he had this. One of the issues stated by Respondent was that he takes the position he didn't have the property right to sell. This is a part of the evidence to show this [12] man had a property right to sell.

Mr. Crouter: My basic objection, your Honor,

(Testimony of Joe L. Schmitt, Jr.)

is it is obviously hearsay, something produced here and may have been used unless and until it is shown it is tied in with the taxable year.

Mr. Bauersfeld: It is made by this man. He has a copyright on it.

Mr. Crouter: It is hearsay what he said on former occasions. It is not shown to be material unless and until it is connected up with something that happened during our taxable year. Here is a document copyrighted in 1948. It is entitled "Selling Exact-O-Matic System." Is this referred to in our basic agreement in evidence?

Mr. Bauersfeld: It is referred to in the basic agreement as to what the assignees received. It is not referred to by title.

Mr. Crouter: I object at this point. I think it is out of order, no foundation laid for a document of this sort.

The Court: I would certainly not receive this document in evidence for the purpose of receiving the statement of anything set forth in it because that would be hearsay. If the document is proper evidence, it is evidence only because it itself is an operating fact. In that connection, I think it would be appropriate for Petitioner Counsel to show far more precisely than he has at this point the [13] connection between this document and this case. The general statement that it is connected in a broad, general way is not sufficient.

Q. (By Mr. Bauersfeld): What was the pur-

(Testimony of Joe L. Schmitt, Jr.)

pose of your preparing this document identified as Exhibit No. 8, Mr. Schmitt?

A. The purpose for which this document was prepared was to give a brief outline to franchise holders of the Exact-O-Matic System.

Q. Was it a part of the training program?

A. It was a part of the training program.

Q. Under the contract which has been stipulated to territorial assignees, were you required to furnish training to their personnel? A. I was.

Mr. Bauersfeld: I offer the document in evidence.

Mr. Crouter: I don't want to seem facetious. Mr. Schmitt, was this document, Exhibit 8, actually used in connection with the contract that you had outstanding during our taxable years, '49 through '51?

A. Mr. Crouter, it was used in connection with the over-all training program that was carried on.

Q. (By Mr. Crouter): Training program of what places?

A. Of the personnel of the territorial franchise holders.

Q. Did you have any dealings with such personnel or was it through the territorial managers or holders?

A. No; in other words, the personnel of the territorial [14] franchise holders we sold the franchise to came to our office in Phoenix, Arizona, for a training period in the territorial assignment.

Q. They came from the state of Oregon or

(Testimony of Joe L. Schmitt, Jr.)

Washington? A. Correct.

Q. Were they furnished a copy of this Exhibit 8? A. Correct.

Mr. Crouter: I have no objection.

Mr. Bauersfeld: We offer the document in evidence.

The Court: It may be admitted.

(Petitioner's Exhibit No. 8 was received in evidence.)

Q. (By Mr. Bauersfeld): I hand you a document and ask you to identify it.

A. This is a manual of procedure for Exact-O-Matic System, a mechanical processing system, and it was written by me, Joe L. Schmitt, Jr., copyrighted in 1948.

Q. When was it completed?

A. It was completed prior to the time it was copyrighted in 1948.

Q. Is it dated?

A. It is dated December 20, 1948.

Q. What connection does this document have with respect to the contract between you and the territorial assignee?

A. This is a complete outline which is used to teach not only the accountant but the machine operator for using the [15] mechanical process known as the Exact-O-Matic System.

Q. This was furnished to them according to the contract? A. Correct.

(Testimony of Joe L. Schmitt, Jr.)

(Petitioner's Exhibit No. 9 was marked for identification.)

Mr. Bauersfeld: I offer the document in evidence.

Mr. Crouter: I believe you testified it was copyrighted in 1948.

Mr. Bauersfeld: He said 1949.

Mr. Crouter: I thought the record showed 1948. The document shows copyrighted in 1949.

Mr. Bauersfeld: I offer the exhibit in evidence.

The Court: Admitted.

(Petitioner's Exhibit No. 9 was received in evidence.)

Q. (By Mr. Bauersfeld): I show you a document and ask you to identify it.

A. That is a receipt issued by the U. S. Patent Office, Serial No. 595855, April 17, 1950, for the registration of a trade name and trade-mark, Exact-O-Matic System.

Mr. Bauersfeld: I offer the document in evidence.

Mr. Crouter: No objection.

The Court: Admitted.

(Petitioner's Exhibit No. 10 was received in evidence.)

Q. (By Mr. Bauersfeld): I hand you a document and ask you to identify it.

A. This is a final registration under Serial [16]

(Testimony of Joe L. Schmitt, Jr.)

No. 552074 issued by the Commissioner of Patents on the 11th day of December, 1951, covering a trade name Exact-O-Matic and trade-mark.

(Petitioner's Exhibit No. 11 was marked for identification.)

Mr. Bauersfeld: I offer the document in evidence.

Mr. Crouter: No objection.

The Court: Admitted.

(Petitioner's Exhibit No. 11 was received in evidence.)

Q. (By Mr. Bauersfeld): I hand you another document and ask you to identify it.

A. It is a receipt from the office of the Commissioner of Patents No. 595856, dated April 17, 1950, covering the registration of a trade-mark and trade name Exact-O-Matic System.

(Petitioner's Exhibit No. 12 was marked for identification.)

Mr. Bauersfeld: I offer it in evidence.

Mr. Crouter: No objection.

The Court: Admitted.

(Petitioner's Exhibit No. 12 was received in evidence.)

Q. (By Mr. Bauersfeld): I hand you another document and ask you to identify it.

A. This is a final registration issued by the Commissioner of Patents, No. 552075, issued on

(Testimony of Joe L. Schmitt, Jr.)

December 11, 1951, to Joe L. Schmitt, Jr., covering the registration of the trade name [17] Exact-O-Matic System and trade-mark.

(Petitioner's Exhibit No. 13 was marked for identification.)

Mr. Bauersfeld: I offer it in evidence.

Mr. Crouter: No objection.

The Court: Admitted.

(Petitioner's Exhibit No. 13 was received in evidence.)

The Court: Do these different documents, Mr. Schmitt, all refer to the same system? They appear to be identified in different ways. In one of them I noticed there was a single word, "Exactomatic," without any hyphen. In another one, for example, Exhibit 12, there are two words, "Exact" and "Matic." There is no "O" in it at all and in still others it is "Exact-O-Matic."

A. It is all referring to the same mechanical system, just variations.

Q. (By Mr. Bauersfeld): I hand you a photostatic copy of a document and ask you to identify it.

A. It is a receipt issued by the Commissioner of Patents, Serial 103050, dated July 7, 1949, to Joe L. Schmitt, Jr., covering a mechanical method for double entry bookkeeping.

Q. This is a patent application?

A. Patent application.

(Testimony of Joe L. Schmitt, Jr.)

(Petitioner's Exhibit No. 14 was marked for identification.)

Mr. Bauersfeld: I offer it in evidence.

Mr. Crouter: No objection. [18]

The Court: Admitted.

(Petitioner's Exhibit No. 14 was received in evidence.)

Q. (By Mr. Bauersfeld): Was this the first application, Exhibit 14, you filed?

A. No; it was not.

Q. When was your first application filed?

A. The first application for patent filed the early part of 1948.

Q. (By Mr. Bauersfeld): I hand you another document and ask you to identify it.

A. That is a receipt from the U. S. Patent Office, No. 285029, dated April 29, 1952, and covers a mechanical method of double entry bookkeeping. The application is Joe L. Schmitt, Jr.

(Petitioner's Exhibit No. 15 was marked for identification.)

Mr. Bauersfeld: I offer the document in evidence.

Mr. Crouter: No objection.

The Court: Admitted.

(Petitioner's Exhibit No. 15 was admitted in evidence.)

(Testimony of Joe L. Schmitt, Jr.)

Q. Have you designed any wiring unit in the use of Exact-O-Matic System?

A. I have.

Q. I ask you to look at Counsels' table and ask you to identify the exhibit I placed upon the table.

A. That is a general accounting wire used in the [19] printing tabulators for Exact-O-Matic System.

Q. For what type machine is that?

A. That is used in a Model 300 tabulator of Remington-Rand.

Mr. Crouter: Excuse me, what are you talking about, any particular document?

Mr. Bauersfeld: No.

The Court: I still don't understand what this piece of apparatus is.

Mr. Bauersfeld: This is part of the Remington-Rand machine.

A. That is the translation boxing that fits into a printing tabulation causes information to be printed.

The Court: I would like to know if it is part of the Remington-Rand machine or something you, yourself, devised, accommodated and used with part of the Remington-Rand machine.

A. I designed it and it is used to produce the printing results from the Exact-O-Matic System. That is my property, although it is manufactured by Remington-Rand.

The Court: You assigned your interest in that to Remington-Rand?

(Testimony of Joe L. Schmitt, Jr.)

A. No, sir; I still retain it.

The Court: Proceed.

Q. (By Mr. Bauersfeld): I hand you a letter and ask you to identify it. [20]

A. That is a letter on Remington-Rand stationery, dated May 3, 1951, addressed to me and signed by R. C. Cooper, assistant supervisor of sales management, Control Division. The purpose of the letter was to confirm our understanding that the wiring unit, No. NB414055, which is used specifically by Exact-O-Matic franchise holders is not to be used or built except for any one except a franchise holder of Exact-O-Matic System of Joe L. Schmitt, Jr.

Mr. Bauersfeld: I offer the document in evidence.

Mr. Crouter: No objection.

(Petitioner's Exhibit No. 16 was received in evidence.)

Q. (By Mr. Bauersfeld): Will you explain the background and development of the system?

A. Going back to 1926 when I began to work at the State Highway Department, I began to investigate the possibility of tabulations being used in more of a general accounting nature than statistical manner it was then being used for. Over a period of time while working as an accountant I came up with the idea and proceeded to try to put them to use.

(Testimony of Joe L. Schmitt, Jr.)

Q. When did your idea finally jell into the Exact-O-Matic System?

A. The latter part of 1947.

Q. Did you have any development cost in connection with this system?

A. I did not. [21]

Q. Did you take any deductions on your returns for development costs? A. I did not.

Q. Have you incurred any legal expense in connection with it? A. I have.

Q. Just approximately what was the legal expense through the years up to the end of the year 1951?

A. A little over \$3,000 had already been expended at that point.

Q. How did you handle this expense?

A. It was set up and carried on my books of record as a capital account.

Q. You didn't take the expense for any of it?

A. No, sir; I did not.

Q. When was the Exact-O-Matic System as it is now known completed?

A. The latter part of 1947.

Q. When did you first file your patent application? A. The first part of 1948.

Q. Since 1947, have you changed the Exact-O-Matic System in any way? A. I have not.

Q. Will you explain what the Exact-O-Matic System is?

A. An automatic mechanical process that evaluates under [22] single entry transactions in tabulat-

(Testimony of Joe L. Schmitt, Jr.)

ing cards in accordance with the double entry bookkeeping equation.

Q. Will you briefly explain how it operates?

A. That is rather of a technical nature so I have prepared in brief and concise language the answer to that question. Exact-O-Matic System is a mechanical process using tabulating cards and equipment of special design where unit single entry information, representing a single unit business transaction is introduced into the process which results in each unit single entry being evaluated in accordance with the double entry bookkeeping equation—assets equal liabilities plus capital and in strict accordance with the rules emanating from the double entry bookkeeping equation, so when the evaluated unit single entry tabulating cards are introduced into a printing tabulator equipped with the specially designed wiring unit it will produce a complete set of double entry bookkeeping records from the books of original entry through the general ledger and subsidiary ledgers and in addition from the same tabulating cards make a current month and year-to-date operating or profit and loss statement and an unanalyzed balance sheet.

Q. I hand you a deck of red tabulating cards and ask you to identify them.

A. That is a deck of the specially designed tabulating cards in which is perforated single entry unit transactions. [23]

Q. Where would you get those cards from in using the System?

(Testimony of Joe L. Schmitt, Jr.)

A. These cards were prepared by a key punch operator on an ordinary Remington-Rand key punch taking the information from the data the same as a bookkeeper would take if he were posting manually.

Q. What does that particular set of cards represent?

A. This particular set of cards represents the unit transactions in a cash receipts and paid out section in the books of original entry and are cards that have not yet been processed through the mechanical process known as Exact-O-Matic System.

Q. Those are the red deck? A. Yes.

(Petitioner's Exhibit No. 17 was marked for identification.)

Mr. Bauersfeld: I offer them in evidence.

Mr. Crouter: May I ask a few questions?

The Court: Yes.

Q. (By Mr. Crouter): Mr. Schmitt, referring to these red tabulation cards you just testified about, who owns these cards? A. I do.

Q. In connection with what business, bookkeeping or business affairs, were these cards prepared?

A. You mean just the other day preparatory to this trial, I don't understand the question? [24]

Q. Are these merely representing or in relation to some business conducted during the taxable years? A. No; it is an example to show.

Mr. Bauersfeld: May I make a statement for the record in relation to this? It may help Counsel.

(Testimony of Joe L. Schmitt, Jr.)

The Court: You may make a statement.

Mr. Bauersfeld: The next few documents are merely offered to show the nature of the process in general, do not represent any business entries made during the taxable years, just to show the process to have the record show what the System does.

Mr. Crouter: Were they made recently?

Mr. Bauersfeld: They were made for the purpose of this case.

Mr. Crouter: Made in Schmitt's office?

Mr. Bauersfeld: Made in Mr. Schmitt's office.

Mr. Crouter: I have no objection if Counsel feels it is necessary for the case.

The Court: Admitted.

(Petitioner's Exhibit No. 17 was received in evidence.)

Q. (By Mr. Bauersfeld): I hand you another document and ask you to identify it.

A. This is a printed page of tabulated information processed through the Remington-Rand tabulator on which has been printed the results of the tabulating cards referred to as the pink deck. [25]

The Court: In other words, is that paper you have before the result of putting Exhibit 17 through the machine?

A. That is correct.

Q. (By Mr. Bauersfeld): Does that evaluate the information on Exhibit 17 as to what is single entry or double?

A. Yes, sir.

(Testimony of Joe L. Schmitt, Jr.)

(Petitioner's Exhibit No. 18 was marked for identification.)

Mr. Bauersfeld: I offer it in evidence.

Mr. Crouter: I would like to see it, please. This also is illustrative for the purpose of this trial?

Mr. Bauersfeld: Yes, sir.

Mr. Crouter: No objection.

The Court: Admitted.

(Petitioner's Exhibit No. 18 was received in evidence.)

Q. (By Mr. Bauersfeld): I hand you 18 cream colored cards and ask you to identify them.

A. These are the 18 master evaluating cards used in the process of Exact-O-Matic System.

(Petitioner's Exhibit No. 19 was marked for identification.)

Mr. Bauersfeld: I offer them in evidence.

Mr. Crouter: Your Honor, I object unless it is shown this is illustrative of the same system used during our taxable years. We may be getting away from 1949. It seems to me they ought to be connected with the taxable years a little more.

Q. (By Mr. Bauersfeld): Mr. Schmitt, the process of these [26] cards beginning with the pink cards which were Petitioner's Exhibit No. 17, was the system that you are describing the same as you used during the years 1949, 1950, 1951?

A. It is identical.

(Testimony of Joe L. Schmitt, Jr.)

Mr. Crouter: I have no objection.

Mr. Bauersfeld: I offer in evidence Petitioner's Exhibit No. 19.

The Court: Admitted.

(Petitioner's Exhibit No. 19 was received in evidence.)

Mr. Bauersfeld: If the Court please, I will have to offer several other documents to explain it and I think it will be clear at that time.

Q. I hand you a deck of cream colored cards and ask you to identify those.

A. These are single entry unit transaction cards, the identical information being perforated into them as contained in Exhibit 17 called the pink deck which have been evaluated through the Exact-O-Matic process.

Q. Am I correct in my understanding you take the pink deck by single entry information——

The Court: I suggest you refer to these exhibits by number, not by color.

Mr. Bauersfeld: May I suggest this be marked Petitioner's Exhibit No. 20?

(Petitioner's Exhibit No. 20 was marked for identification.) [27]

Q. (By Mr. Bauersfeld): Will you explain, beginning with Petitioner's Exhibit No. 17, which is the pink deck, what produces that set of cards which is Petitioner's Exhibit No. 20 for identification?

(Testimony of Joe L. Schmitt, Jr.)

A. I will have to elaborate just a little. Petitioner's Exhibit No. 17 is a deck of cards perforated in single entry information that has not been put through the Exact-O-Matic process but was placed in the printing tabulator with the wiring unit that I designed and in Petitioner's Exhibit 18 the printed results are shown from these cards but have not been evaluated in the process. Petitioner's Exhibit No. 19 referred to as a master evaluating card is a factor in the processing of the mechanical process. It is used along with other tabulating equipment. Now Exhibit 20 is a tabulation deck of cards with the identical information in it that has been perforated by a punch operator as was contained in Exhibit 17 but after that was finished, these cards were then put through the mechanical Exact-O-Matic process in which the 18 master cards in Petitioner's Exhibit No. 19 were used in function which produced the ultimate result as shown by the printed results from these cards.

The Court: In other words, Exhibit 20 is the product of putting Exhibits 17 and 19 together?

A. That is right, in the mechanical process.

Mr. Bauersfeld: I ask that this be marked [28] for identification as Exhibit No. 21.

(Petitioner's Exhibit No. 21 was marked for identification.)

Q. I hand you Petitioner's Exhibit No. 21 for identification and ask you to identify it.

(Testimony of Joe L. Schmitt, Jr.)

A. That is the printed results of Exhibit No. 20 in which the unit detailed cards have been evaluated in accordance with the double entry bookkeeping equation with the results Exact-O-Matic equation shown and have been posted in standard fashion into a double entry set of books, this particular section being receipts and paid out section of the books of original entry.

Mr. Bauersfeld: I offer Exhibits 20 and 21 in evidence.

Mr. Crouter: As I understand, these are illustrative of the process and recently prepared for this case?

Mr. Bauersfeld: Yes, sir.

Mr. Crouter: No objection.

The Court: Admitted.

(Petitioner's Exhibits 20 and 21 were received in evidence.)

Q. (By Mr. Bauersfeld): What language does the System use?

A. The System will use any language that employs the Roman alphabet.

Q. Will it use German? A. It will.

Mr. Bauersfeld: Will you mark this for identification? [29]

(Petitioner's Exhibit 22 was marked for identification.)

Q. (By Mr. Bauersfeld): I hand you Peti-

(Testimony of Joe L. Schmitt, Jr.)

tioner's Exhibit 22 for identification and ask you to identify it.

A. This is the printed results after the cards have been put through the Exact-O-Matic System translation process.

Q. What language is it in?

A. In the German language and is the same section of the box of original entry receipts and paid out as Petitioner's Exhibit 21.

Mr. Bauersfeld: I offer Exhibit 22.

Mr. Crouter: No objection.

The Court: Admitted.

(Petitioner's Exhibit 22 was received in evidence.)

Q. (By Mr. Bauersfeld): Have you sold any of of your rights under the copyright, trade-mark or patent applications?

Mr. Crouter: I object. It seems to me that we are using words of art that are controversial and misleading, subject furthermore to written documents if he did make any transactions involving any of these. The word "sold" in this case is one that is conclusive of the issue the Court is to be called upon to determine.

The Court: It would be more desirable if the question can be framed in terms that are not conclusive of the issue in this case.

Mr. Bauersfeld: I think, your Honor, the witness [30] can testify as to his intention whether he thinks he sold and I think the Court has the right to have the benefit of that. I realize because

(Testimony of Joe L. Schmitt, Jr.)

we use the term it is not going to follow we call a cow a pig. The Court is going to find out what.

The Court: Your question is intended to elicit from him testimony of the very transactions before the Court for review.

Mr. Bauersfeld: My question is to find out if this man has disposed of any of his interests in the Exact-O-Matic System.

The Court: You may ask as to what disposition he made and the Court will determine whether they are sales or not.

Q. (By Mr. Bauersfeld): Have you disposed of any of your rights by way of copyright, trademark or patent application which you called the Exact-O-Matic System?

A. I have disposed of certain territorial areas of my rights in the Exact-O-Matic System process which I have referred to as territorial assignments.

Q. What did you understand you were doing at that time?

A. I understood I was giving whatever I had to the other person who was taking it.

Q. What territories or areas have you disposed of?

A. The territories of Washington, Oregon, Idaho, Utah, Nevada, California, New Mexico, Colorado, Oklahoma, [31] Pennsylvania, Ohio, Florida and Georgia.

Q. How many dispositions or assignments did you make?

(Testimony of Joe L. Schmitt, Jr.)

A. One for each of the states, I think. I don't quite understand your question.

Q. How many transactions did you have in disposing of the territories?

A. Well, I had one transaction for each state.

Q. In some states more than one area?

A. Well, yes, in California it was divided into two, northern and southern.

The Court: Of course, the word "disposing" may precipitate the very question before the Court for review. This witness may conceive he has disposed of something. The Government may conceive he merely entered into a contractual arrangement with somebody. I take it whether or not there is a disposition on the one hand or simple contractual arrangement on the other hand depends on viewing the arrangement in its entirety.

In view of the hour, this might be a good point at which to suspend. We will recess now until 2:00 o'clock.

(Whereupon, recess was had from 1:00 o'clock p.m. to 2:00 o'clock p.m.)

(The witness resumed the stand.)

Q. (By Mr. Bauersfeld): I show you Exhibit 1 and ask you is this the type of agreement under which you disposed of your territorial rights? [32]

A. It is.

Q. How many of those agreements did you enter into? A. A total of eleven.

Q. Are the territorial assignment patent agree-

(Testimony of Joe L. Schmitt, Jr.)

ments all in this form? A. They are.

Q. Do you still have any patent applications pending? A. I do.

Q. That is a patent application in regard to what?

A. In regard to the Exact-O-Matic mechanical process.

Q. Where is that pending?

A. The U. S. Patent Office.

Q. What is a district franchise or license referred to in the territorial assignment of patent?

A. That is an assignment of a portion, a well-defined portion of a territorial franchise.

Q. Who makes that assignment?

A. The territorial franchise holder.

Q. I show you Exhibit 2-B and ask you if that is the district franchise you are referring to?

A. It is.

The Court: I have read over Exhibits 1-A and 2-B and I am considerably in the dark as to just how these so-called assignments or arrangements worked. There are references to phrases that are not meaningful to me. For example, Page 1 [33] of Exhibit 1-A, there is referred to the term "District," Unit A and Unit B. I have no idea of what Unit A and Unit B are all about. These terms are not defined. I cannot tell from Exhibit 2 just what it is the so-called licensee does in relation to Exhibit 2, whether the licensee uses this, whether the licensee in turn operates the system in favor of some third or fourth party, just what is involved.

(Testimony of Joe L. Schmitt, Jr.)

I would like the witness to start from the beginning and tell me what this whole set-up is all about.

Mr. Bauersfeld: My next question deals with Unit A.

The Court: Can you start from the beginning without going into the details of the machinery involved and tell me who these various people are, what service they render for whom?

A. To start with, your Honor, I issued a territorial assignment of all the rights as far as the Exact-O-Matic System is concerned either public, quasi public or certified public accountant operating in a state.

The Court: That is a person you designate as a franchise holder?

A. Territorial franchise holder.

The Court: What does he do?

A. He has the same rights I have. I passed it to him. He had a right in his state covered by his territorial assignment to cut that state up into district franchises for [34] operations usually within a well-defined trading area such as a county or several counties where an accountant would operate the system. In turn, the territorial franchise holder of this state supervised the district franchise holder, in other words, assisted and helped him.

The Court: Just what was the territorial franchise holder? He didn't operate the system, did he?

A. He did.

The Court: What did the district man do? Shall

(Testimony of Joe L. Schmitt, Jr.)

we call him the licensee? Let's get a term for him. Your document, Exhibit 1-A, seems to refer to the first man as a franchise holder. He is the assignee under your Exhibit 1-A. The next man in the chain of events is a man that is referred to as a licensee in Exhibit 2-B. What does the licensee do?

A. The licensee takes a well-defined territory within the state that is assigned to the territorial franchise holder by my assignment and gets up a practice.

The Court: What is his operation?

A. Doing mechanical bookkeeping-mechanical double entry Exact-O-Matic System.

The Court: For whom?

A. Various clients he may have or subsequently secure. That is done under the supervision of the territorial franchise holder.

The Court: The ultimate consumer, so to speak, is the [35] business that is being serviced by the licensee?

A. That is correct, sir. However, the territorial franchise holder also has a district license in his own operation. In other words, it is a public accountant who when he is assigned the state takes a territorial assignment for the rights I have to use it and to sell it. He has a district license also and he sets up his own operation under the district license and operates it according to the terms of that license.

The Court: The ultimate source of revenue or business is business concerned within the area?

(Testimony of Joe L. Schmitt, Jr.)

A. That is correct.

The Court: Those business concerns pay fees either to the so-called licensee or to the so-called franchise holder if the franchise holder operates directly without the intervention of the licensee?

A. That is correct, based upon the fees paid by small businesses for these franchise holders and district franchise holders.

The Court: What services are rendered to these so-called small businesses or I may refer to them for want of a better term as ultimate consumers?

A. The monthly bookkeeping records are kept and maintained the same as on a manual basis; in other words, taking it from the original data. Profit and loss statements are furnished to them just like you would do manually, an [36] accountant servicing client. In other words, by this we were able to bring tabulating and tabulating methods down to little businesses who heretofore couldn't afford to handle that service. An accountant with Exact-O-Matic System can service a great many accounts with much less personnel than if he were doing it on a manual basis.

The Court: So that your franchise holders and your licensees were accountants; they, in turn, served what you describe as small businesses within their respective areas?

A. That is correct, sir.

The Court: Using the system you have testified you have devised?

A. That is correct, sir.

(Testimony of Joe L. Schmitt, Jr.)

Q. (By Mr. Bauersfeld): Mr. Schmitt, the territorial assignee under Exhibit 1-A was also the district franchise holder of District License No. 1 in the territory?

The Court: What does No. 1 mean? Does that have significance? Is there a District No. 1 in every territory?

A. Yes, your Honor, because the territorial man became also the district man. No. 1 is an operating franchise. The other was selling, supervising, etc.

The Court: How many districts were there?

A. In some cases the territorial man, the territorial assignee, had the right to sell other districts so he would create districts from two or three within that state. [37]

The Court: Were there some instances in which District No. 1 was the only district?

A. Yes; that is true.

The Court: What is meant by Unit A and Unit B?

A. Unit A franchises were provided in the event——

The Court: What were they?

A. They were the rights to use Exact-O-Matic System in one individual industry or one point. For instance, if XYZ Company wanted to use the System to do its bookkeeping and so forth, that was arranged for so it could be handled through the district and territorial man; in other words, not through a public accountant but XYZ Com-

(Testimony of Joe L. Schmitt, Jr.)

pany who wanted to use it for its bookkeeping methods.

The Court: I am afraid I don't understand. Tell the difference between Unit A and Unit B.

A. Unit B, unlike the district franchise referred to, the district franchise being through an accountant who had a number of clients. Unit A franchise was designated for one company.

The Court: Designated to the company or accountant?

A. To the accountant for use in this company. In other words, it could be only used in that one operation they had.

The Court: In other words, Unit A was for an accountant with one client. Unit B was for accountants with multiple clients? [38]

A. Unit B was for accountants who had two, three or four clients, just like the accountant who had Unit A franchise only he was allowed to use it in two or three places of his clients. We tried to make distinction between uses of the district where there was no limitation. The district holder could have 50 clients or 500 clients.

Q. (By Mr. Bauersfeld): Were any Unit A or Unit B licenses ever issued?

A. No; they were not.

Q. Did you, under the territorial assignment of patent agreement, set up a training program of employees of the purchasers of the territorial areas? A. I did.

Q. Why?

(Testimony of Joe L. Schmitt, Jr.)

A. It was necessary to teach some one else in order to, in other words, pass my knowledge on to them, so the System would be operative. If I ever hoped to realize anything from the use of the mechanical process, other people had to use it so I could get some compensation.

Q. In addition, you were required to do it under the contract?

A. In addition, the territorial provision provided for this.

Q. Why didn't you sell your Exact-O-Matic System in toto to one person? [39]

A. That would be impossible and impractical for this reason: That Exact-O-Matic System is strictly a tool of the accounting profession. Accounting is regulated by statutory provisions in all of the states. In other words, it is just impractical for one accountant in the state of Arizona to start doing bookkeeping with Exact-O-Matic System for clients in the state of Oregon.

The other thing is under some of the state laws he has to be a resident before he could be provided the license to practice. You have conflict that might make it impossible to perform that way.

Q. Why couldn't you sell it to a national firm of accountants like Ernst & Ernst?

A. There are national firms engaged in the accounting profession but the national firms don't do bookkeeping for small businesses; engaged in audit, consultation of big business, don't go to the level

(Testimony of Joe L. Schmitt, Jr.)

this was made for, to service small businesses in the bookkeeping field, double entry books.

Q. What effort did you make or use to solicit the sales of Exact-O-Matic System?

A. Personally, I made none. Upon acceptance of this System and putting it into operation with Remington-Rand equipment and the things that go along with that, they sent out the announcement throughout the United States, released publicity on it, things of that nature. All of a sudden I [40] became swamped with inquiries coming from all the states, foreign places and everything else.

Q. What does Remington-Rand have to do with the System?

A. Remington-Rand manufactures the basic tabulating equipment that is used and, in addition, manufactures that wiring unit.

Q. Known as what?

A. Known as the Exact-O-Matic System wiring unit.

Q. Have you ever applied for any other copyrights, trade-marks or patents?

A. I have not.

Q. Have you ever sold any other patent applications, trade-marks, copyrights?

A. I never have.

Q. Over the years, what has been your business?

A. Public accountant.

Q. Were you a party to the district franchise?

A. I was not.

(Testimony of Joe L. Schmitt, Jr.)

Q. What did you have, if anything, to do with the district franchise?

A. I only had the right of approval on a man's ability, if he was an accountant, his integrity, his honesty and financial ability to carry through.

Q. What did you actually do to check on the district franchise holder? [41]

A. In most cases, rely on the territorial man who had the territorial assignment, in some few cases check Dun & Bradstreet or retail credit report on the man's financial standing I wasn't sure about.

Q. Did you ever refuse to approve any district franchise application? A. No.

Q. What right of supervision did you have over the territory assignees? A. No rights.

Q. What right of supervision did you have over the district franchise holder? A. None.

Q. Under your territory assignment, did the assignee have the right to make anything?

A. If you mean by the word "make" to use the machine process that I had invented in which single entry information tabulation card was transferred to the double entry information according to the equation, yes, he had a right to make that but if you mean "make" like you manufacture an article or something else, I didn't have the rights to make it either. In the first place, I didn't make it so if I didn't make it, he couldn't make it, but he had a right to use what I had made because to me this mechanical process is very similar to a pharma-

(Testimony of Joe L. Schmitt, Jr.)

ceutical formula in which the elements are [42] involved. The inventor invents it only once. When others take it, they have a right to recompound it or use it but can't make it because you can only make a process once.

The Court: Would you explain more clearly than set forth in this exhibit just how you were paid?

A. On the territorial assignment where my rights were granted to a territorial franchise holder such as shown in Exhibit 1-A, a value for that area was established by the amount of volume of trading area contained within the territory described in Exhibit 1-A. As an illustration, I will use the sum of \$5,000.

The Court: Is anything of that sort set forth in Exhibit 1-A, any lump sum?

A. No; no lump sum. All of them carried the consideration the sum of ten dollars and other valuable consideration.

The Court: So that Exhibit 1-A had no lump sum?

A. That is right.

The Court: Were you paid in connection with Exhibit 1-A only through a fraction of royalties?

A. In addition to the payment of the lump sum for the acquisition of the territorial assignment of patent fee set up.

The Court: I didn't understand there was any lump sum involved.

Mr. Bauersfeld: May I explain there is another

(Testimony of Joe L. Schmitt, Jr.)

exhibit [43] in the record that shows the amounts received.

The Court: Those are general. I am asking about the particular assignment involved in 1-A. Was there any lump sum received in connection with 1-A?

A. In Exhibit 1-A there was a lump sum settlement, I mean a first settlement made for the territorial franchise, the territory of Oregon and a part of Washington which was in the trading area.

The Court: That lump sum is not shown?

A. No, sir.

The Court: Exhibit 3-C does show receipts of money but the heading is further limited by describing those receipts as being receipts under agreements referred to in Paragraphs 3 and 4, Stipulation of Facts 3 and 4 in turn refer to Exhibits 1-A and 2-B and so if I were to read Exhibit 3-C literally I wouldn't find included in Exhibit 3-C any of the so-called lump sum payments you are talking about. I wish you would clarify that. If it does, you have not set it forth with the precision you should. I am having great difficulty trying to find from your exhibits just what your case is all about.

Mr. Bauersfeld: Exhibit 3-C is intended to show the amounts received. We had this difficulty in wording it to have any stipulation because plain words fail "assignment" and other words. It is referred to in that way in order that we could stipulate. These amounts here say from territorial

(Testimony of Joe L. Schmitt, Jr.)

agreements [44] mean the original amounts and 3-C shows the district agreements, the amount received from the district.

The Court: These amounts received in your view include not only lump sum payments but also payments geared to royalties?

Mr. Bauersfeld: No; the payments geared to royalties were returned as ordinary income, the lump sum payments as capital gain.

The Court: Exhibit 3-C involves only the lump sum payments?

Mr. Bauersfeld: Yes.

The Court: Does the Government agree?

Mr. Crouter: I believe the amounts involved in 3-C are the ones before the court here. I don't concede all these amounts were made for entering into that agreement and there is question as to where the line is drawn on initial negotiations and thereafter. I think the so-called royalty referred to in the district agreement are separate and apart from this.

The Court: Mr. Schmitt, you testified you had a lump sum from the assignee, the franchise holder?

A. That is right.

The Court: What further compensation did you get?

A. In the case of where the territorial assignee sold a district franchise reading the first district franchise with the territorial for which he paid nothing; in other words, [45] the two moved out together. If he sold a second one, then he was, upon

(Testimony of Joe L. Schmitt, Jr.)

the sale of that, to return, according to the territorial assignment, a certain per cent of that lump sum sales price to me as additional consideration for the territorial assignment.

The Court: That is shown on Exhibit 1-A in Paragraph 6-A, that is 60% of the sales price of each district license Unit A or Unit B license in the territory described?

A. That is described, sir.

The Court: In addition to that percentage of that lump sum, what other compensation did you receive?

A. In addition to that, the district franchise paid a ten per cent royalty on his monthly service fee for his various clients to the territorial franchise holder. The territorial franchise holder, in turn, retained 50% of that and remitted the other 50% to me which I treated as a royalty and ordinary income and so reported.

The Court: Now is there involved in this case any items received under Paragraph 6-A of Exhibit 1-A?

Mr. Bauersfeld: The Court's question is whether there is any money other than 6-A involved?

The Court: My question is whether there was involved in this case amounts that were paid under Paragraph 6-A of Exhibit 1-A?

Mr. Bauersfeld: The answer is yes, three were involved. [46]

The Court: Then this case involves two kinds of lump sum payments, first a lump sum payment with the franchise holder paid to the Petitioner for the

(Testimony of Joe L. Schmitt, Jr.)

franchise, amounts that are not spelled out in Exhibit 1-A at all. Secondly, there is involved in this case 50% of lump sum payments which the district licensee paid to the franchise holder. So there are two kinds of lump sum payments involved here.

Mr. Bauersfeld: That is correct.

The Court: I think I understand it at this point but I had to get it by pulling teeth and am not pleased with the way the matter has been presented up to this point.

Mr. Bauersfeld: Exhibit 3-C shows the amounts from the territory and from the district that were received.

The Court: Proceed.

Q. (By Mr. Bauersfeld): In the territorial assignment of patent Paragraph 15 provides "Assignee agrees not to assign or dispose of this territorial assignment in whole or in part without the written consent of the assignor." Why was that put in the agreement?

A. The mechanical process known as Exact-O-Matic System is strictly a tool of the accounting profession and some method had to be used to safeguard it from falling into the hands of someone not qualified to use the System. That was not only a protection for me but to the other franchise holders, whether district or territory. [47]

Q. Could you as assignor revoke or terminate a territorial agreement?

A. I could not. The only exception as outlined

(Testimony of Joe L. Schmitt, Jr.)

in the territorial assignment was for the failure of payment for it.

Q. Did you ever withhold approval of a territorial assignee to assign the agreement?

A. I never did.

Q. Could you revoke or terminate any district franchise? A. I could not.

Q. Are all territorial assignees operating in accordance with the agreement?

A. They are not.

Q. What is the situation as to them?

A. Going out of business.

Q. Why haven't you terminated the agreements?

A. I have no rights where I can.

Q. Which of the territorial assignees have failed?

A. Washington, Oregon, territory of Utah, Nevada, Idaho, northern California, New Mexico, Pennsylvania, Florida, Georgia.

The Court: I don't understand why you couldn't do something about the situation in which the assignees have gone out of business. I am looking at Paragraph 3, Exhibit 1-A in which the Assignees agree "to use their best efforts and/or to sell Unit A, Unit B franchises" and since your ultimate compensation will depend in substantial part [48] to the extent of activity of the assignee, I raise the question, do not suggest the answer, as to whether you might not have some remedy by reason of the assignee's failure to comply with Paragraph 3.

A. May I answer that, your Honor?

(Testimony of Joe L. Schmitt, Jr.)

The Court: Yes.

A. At the outbreak of Korean hostilities, there was imposed upon the manufacturers of equipment such as Remington Rand what is known as priorities for strategic materials. At that time and prior to that time when this was being operated, we were computing a 90 day guarantee delivery including myself as grantor of assignment and Remington Rand as manufacturer of the equipment which they were to use. When the priorities became effective, due to the nature of our operation, we were not engaged in any war effort of any kind, merely the practice of public accounting, we couldn't obtain these priorities. As a consequence, no machines would be manufactured. That continued for a period of a little over two years before released. In that period the impetus of carrying through was lost. One had a fire, dissolution of partnership, things of that kind more or less brought it to a point where there was more or less of a standstill. Upon the advice of my counsel who had gone through this franchise, helped draw it up before it was issued, no reservations whatever were made as long as they didn't owe me any money which they didn't. When they ceased [49] operation, I could do nothing about it.

Q. (By Mr. Bauersfeld): Under the district franchise agreements, you would receive as royalty an amount equal to 50% of the amount of the territory assignee from the district franchise holder, how did you receive it? A. As ordinary.

(Testimony of Joe L. Schmitt, Jr.)

Q. What is Exact-O-Matic System of Arizona?

A. It is a corporation set up to render book-keeping service to the clients in Arizona, especially in Phoenix, using the Exact-O-Matic System.

Q. Did you undertake to set up a program to train employees? A. I did.

Q. Will you explain what you did to set up the training program?

A. The first thing I had to do was to train the personnel of Exact-O-Matic System Corporations of Arizona. At that time, I was the only one who knew anything about it. During the year 1949 I devised the procedure of manuals, reduced the notes to outline and set up a complete training program that carried on for a period of 30 days or one month for the personnel of each franchise holder, including accounts and machine operators.

Q. Who trained the personnel? In 1949?

A. I did myself. [50]

Q. In 1950 and 1951 who trained the personnel?

A. The personnel of Exact-O-Matic System, Inc., of Arizona.

Q. Did you have a contract with them?

A. I did.

The Court: With whom?

Mr. Bauersfeld: Exact-O-Matic System, Inc., of Arizona.

Q. I show you Exhibit 4-D and ask you if that is the contract you referred to?

A. That is the contract.

Q. It is dated 1950. When was it actually made?

(Testimony of Joe L. Schmitt, Jr.)

A. The latter part of December, 1949.

Q. For the year 1950 how much did you pay the corporation for training the personnel of territorial assignees? A. \$10,375.

Q. How much did you pay the corporation in 1951? A. \$3,020.

Q. How were these amounts determined?

A. These amounts were determined in accordance with the agreements marked here Exhibit 4-D.

Mr. Bauersfeld: May I have this marked?

(Petitioner's Exhibit No. 23 was marked for identification.)

Q. I hand you Petitioner's Exhibit No. 23 for identification and ask you to identify that.

A. This is a computation based upon the terms of the [51] agreement by which the Exact-O-Matic System of Arizona, Inc., was to be compensated for its service by me, and shows for the year 1950 that the sale of territorial franchises equaled and totaled \$38,000 which according to the terms of the contract Exact-O-Matic System of Arizona was to receive 25% or \$9,500.00. During the year 1950 the sales of district franchise totaled \$7,500.00. According to the terms of the contract they were to receive 15% of this amount or a total of \$1,125.00, making the total \$10,625.00.

However, during the year 1950 I paid \$1,000.00 as commission to the Florida territorial franchise holder for his help and assistance in negotiating the sale of the territorial franchise for Georgia. Since

(Testimony of Joe L. Schmitt, Jr.)

I had remitted 25% and 15%, respectively, of the gross sales of franchises, I was entitled to deduct 25% from what I had on them for this portion of expense for the \$1,000 paid to the Florida territorial franchise holder, which leaves \$10,375.00.

During 1951 the sales of territorial franchises amounted to \$11,000, 25% of which was \$2,750.00. The sale of district franchises amounted to \$1800 at 15%—\$270.00, net amount due to Exact-O-Matic System of Arizona \$3,020.00.

Mr. Bauersfeld: I offer Exhibit 23 in evidence.

Mr. Crouter: No objection.

The Court: Admitted.

(Petitioner's Exhibit No. 23 was received in evidence.) [52]

PETITIONER'S EXHIBIT No. 23

Year 1950

1950 for the sum of \$10,375.00 which was computed as follows:

Sale of Territorial Franchises—\$38,000.00 at 25%.....\$ 9,500.00

Sale of District Franchises—\$7,500.00 at 15%..... 1,125.00

Total\$10,625.00

Less 25% of the \$1,000.00 commission paid to the
Florida Territorial Franchise on the sale of
the Territorial Franchise for Georgia..... 250.00

Net amount due Exact-O-Matic Systems of Arizona.....\$10,375.00

Year 1951

During the year 1951 the following sales were made:

Sale of Territorial Franchises—\$11,000.00 at 25%.....\$ 2,750.00

Sale of District Franchise—\$1,800.00 at 15%..... 270.00

Net amount due Exact-O-Matic System of Arizona.....\$ 3,020.00

Admitted in evidence March 25, 1957.

Q. During the year 1950 did you have any other expenses for the training of personnel?

A. I did.

Q. What was that?

A. It was additional compensation for the use of machines and services of the employees of Exact-O-Matic System, Inc., of Arizona amounting to \$2,200 some dollars. I don't remember the exact amount.

Q. If you contracted with the corporation Exact-O-Matic System, Inc., of Arizona to train personnel, why would you incur an expense?

A. Under the terms of the agreement that I made Exact-O-Matic Systems, Inc., of Arizona was to train machine operators during the year 1950. There was the personnel of eight territorial franchises trained in the home office of Phoenix, Arizona, which meant it was impossible for me to train that many accountants in that period of time. Many times we had two franchises training at the same time or overlapping. So I used the services of the employees of Exact-O-Matic System, Inc., of Arizona.

(Testimony of Joe L. Schmitt, Jr.)

The Court: Were you one of those employees?

A. No, sir, I am an officer but not an employee of the company. The expenses incurred for our employees including two accountants which were Mr. Hammett, McCowsky, Mr. Shaddegg, machine shop operator; Mr. Austin, machine shop [53] operator, amounted to some \$12,000 alone. In addition, the machine rental that Exact-O-Matic System of Arizona had paid, a little over \$6,000 plus additional cost for paper and cards brought it well over \$20,000 and they had received some \$10,375. Putting it briefly, it boiled down to where the corporation felt they had to be paid more for the services they rendered beyond the scope of the agreement entered into.

It so happened at that particular time we settled on the proposition if I would pay four months machine work and some supplies to Remington Rand then due we would call the account square between us, which we did, so I issued my check direct.

The Court: Mr. Crouter, do I understand the chief issue between you and the Petitioner in connection with this item is whether or not the Petitioner, in fact, paid the item as distinguished from whether or not the Corporation paid it?

Mr. Crouter: Not only payment but a question of whether or not—a question of whose obligation it was, whether the people rendering the service were working for Mr. Schmitt individually or this corporation. I don't think this relationship is fully developed yet.

(Testimony of Joe L. Schmitt, Jr.)

The Court: That would be immaterial if the Corporation were rendering services for Mr. Schmitt and it used its employees for that purpose.

Mr. Crouter: It may be a question of whether he is [54] volunteering the payment, whether the corporation is exclusively doing the job or both. I am not certain under his method of operation or the testimony up to this point.

The Court: The fact of the payment is in issue.

Mr. Crouter: No, a question of who the employer was, for what purpose, etc., also the beneficiary of the payment under his agreement. For instance, I could pay some garage rental attendant's service but it is voluntary on my part.

The Court: As I understand the issue in this case, it is pursuant to Exhibit 1-A and similar agreements. The Petitioner was under obligation to furnish certain instructions to the franchise holders. He could have furnished that instruction directly or could have paid somebody else to furnish it for him. His position here apparently, unless I misapprehend it, is that he used a corporation which had certain employees as the means of complying with his obligation under Exhibit 1-A. It would seem immaterial to me whether he paid these employees or paid the corporation as long as he was paying a reasonable amount for the purpose of discharging that obligation under 1-A.

Mr. Crouter: As I understand, the corporation is a separate entity and separate taxpayer.

A. Yes, sir.

(Testimony of Joe L. Schmitt, Jr.)

Mr. Crouter: That poses the question but it is tied up with what the corporation will do and what the individual [55] will do.

The Court: Are you challenging the fact of the payments by Mr. Schmitt?

Mr. Crouter: That is correct.

The Court: You are challenging the actual payments?

Mr. Crouter: It is a question of whether Mr. Schmitt individually made the payments, also whether it is his obligation, also whether he is paying an obligation, incurring an expense which is a legal expense.

The Court: As to the facts of payment, the record up to this point is not entirely clear. Do you expect to develop that?

Mr. Bauersfeld: Yes.

The Court: Proceed.

Q. (By Mr. Bauersfeld): Who paid \$10,375?

A. Joe L. Schmitt paid it.

Q. To whom?

A. Exact-O-Matic System, Inc., of Arizona.

Q. For what?

A. For performance by them under the terms of this contract which is Exhibit 4-D.

Q. Was the same thing true for the year 1951 in regard to the amount of \$3,020.00?

A. That is correct.

Q. With respect to the \$2,268.20 who made those payments? [56]

A. I did.

(Testimony of Joe L. Schmitt, Jr.)

Q. Why did you make those additional payments in 1950?

A. Because the corporation had expended more in the training program, much more. They were out some better than \$20,000 only having received back roughly \$10,375. Frankly, they just wouldn't stand for it.

Q. Did they do any work in addition to what they agreed to do under 4-D?

A. I used Mr. Hammett and Mr. McCowsky, two senior accountants, during the year 1950 to help train the accountant personnel of the territorial franchises in training that year. As I recall, there were eight territorial franchises in training that year.

Q. It is your position under 4-D they were not obligated to train the accountants as distinguished from the machine operators?

A. That is correct.

Q. I hand you a series of five checks and ask you to identify them.

A. These are checks I issued directly and made payable to Remington Rand in settlement of the \$2,200 some dollars item. They are my own personal checks.

Q. Did the corporation, Exact-O-Matic System, Inc., of Arizona report as ordinary \$10,375 in 1950, \$3,020 in 1951?

A. It was reported as ordinary income by the Exact-O-Matic System of Arizona. [57]

(Testimony of Joe L. Schmitt, Jr.)

Mr. Bauersfeld: May we have these marked for identification.

(Petitioner's Exhibit No. 24 was marked for identification.)

I offer as one exhibit a series of five checks totaling \$2,268.20.

Mr. Crouter: No objection.

The Court: Admitted.

(Petitioner's Exhibit No. 24 was received in evidence.)

Q. (By Mr. Bauersfeld): To operate Exact-O-Matic System, is it necessary to have accountants as well as machine operators?

A. Accountants have to set up deferred charges, figure depreciation and things of that kind Exact-O-Matic System mechanical process can't make.

Q. During the year 1951 the Government has disallowed \$2,008.87 as payments made on two rental properties. Will you explain what gave rise to them?

A. I purchased a parcel of property upon which two rental houses were then situated and in order to go in and do some of the necessary minor repairs, as I considered necessary to bring the houses up to par to maintain its rentals, I went ahead and employed certain yard men, furnished certain materials to do these repairs.

Q. Where are these houses located?

A. 8610 North Central Avenue, Phoenix.

(Testimony of Joe L. Schmitt, Jr.)

Q. I show you Petitioner's Exhibit 5-E and ask you to [58] describe the nature of the repairs.

A. Exhibit 5-E shows that during 1951 I paid for carpenter and labor in the amount of \$272.40. This covered doors, windows, putting back some of the molding that became loose. Going under the house where some of the blocks that supported the joists had become useless, leveling the floor back up, putting on new screen doors, making several screens, a small group of miscellaneous maintenance repairs. During the year 1951 I paid A. G. Hillman for labor, painting in the sum of \$250.74, plastering in the amount of \$351.50. This covered patching and things of that kind with the exception of one thing. The ceiling in the living room of the main house was patched before the plaster was finished. The patch didn't hold and fell out so we had to tear all the plaster off. Then plumbing. I paid for labor and also for the repairs of the electrical motor on the deep-well pump \$56.00.

Q. Did you buy a new motor?

A. No, I had the old one repaired, had to have it rewound, etc., five horsepower motor. I paid \$114.50 for miscellaneous labor outside, cleanup. The place was planted in oleander and things of that kind. It had been rented and the tenants didn't take good care of it. There were trees to be trimmed, brush to be pulled out, which amounted to \$114.50. The next amount was miscellaneous material including plumbing, electrical supplies, carpenter supplies, plaster,

(Testimony of Joe L. Schmitt, Jr.)

cement, [59] things of that kind amounted to \$656.33.

Then I did buy a Panelray heater. The reason was since the house was built the building code was changed and requires when you replace any rental house now in this state you must have a vent and outlet for a gas heater. I had to take out the old heater and put in one where I could put a vent in the roof.

The Court: Where is that shown?

A. Page 13.

The Court: Check No. 8706?

A. Yes. In addition, I did replace the bathtub in the main house because apparently some tenant put acid solution in it so I couldn't do anything with it. I pulled the tub out and put another one in.

The Court: Where is that?

A. Sears & Roebuck, \$87.28.

Q. (By Mr. Bauersfeld): No additions to the property? A. None of any kind.

Q. Did the repairs increase the life of the building? A. Not in my opinion.

Mr. Bauersfeld: You may inquire.

Cross-Examination

By Mr. Crouter:

Q. Let's take the last question. As I understand your statement, you said these repairs didn't increase the life of [60] the building?

A. That is correct. I said in my opinion they did not.

(Testimony of Joe L. Schmitt, Jr.)

Q. Some of the lumber was for solid supporting joists underneath the building.

A. No, in other words, the joists are supported from the walls, out in the center, by these concrete blocks around 19 to 20 inches high through the center of the support. The house was at least 20 years old. They had settled and left a space between the top of the block and the joist itself. So, as you walked in the house, you had a sway motion in some of the rooms. The carpenter had to take the pieces of wood between the upper part of the block and joist and drive a wedge in to make it solid.

Q. In how many different places in the house?

A. It would be impossible for me to crawl under there. I am too big. I know when I walked on it, it was solid after he got through.

Q. Are you talking about the large main house?

A. Yes.

Q. Now there were two houses on the same lot?

A. Yes.

Q. What was the over-all dimension of the large house?

A. Let me give it to you by rooms because I don't know. The main house had a large living room and dining room. It had what could be a den or sun room. It had a kitchen. It had a [61] glassed-in service porch. It had two bedrooms. It had a hallway and big screen porch in the front.

Q. I notice Exhibit 5-E refers to a number of lumber items. What were the major pieces of lumber used for, what did it go into in the house.

(Testimony of Joe L. Schmitt, Jr.)

A. There were only small pieces of lumber. If you are looking at the one from Finch Lumber Company, that is where I bought most of my paint, so that wasn't lumber. I think the largest amount of materials probably was paint and oils.

Q. Some of those items from the lumber company were for something besides lumber?

A. Yes.

Q. To what extent besides fixing up the floor, was lumber used on this work? You may want to examine the carpenter labor items.

A. I paid him so much an hour, for instance, hanging doors, repairing some of the screens. Some of the molding was splintered where they had driven nails into it to hang things on. We replaced that before we painted.

Q. You put in a new frame, for instance?

A. I mean this picture molding, maybe a piece four or five inches long. It had been splintered so you couldn't paint it.

Q. What about some of the plumbing items? Was any piping replaced? [62]

A. Some because in this country we have what is alkali in the water or calcium and in the course of years a white substance builds up within your pipe and cuts down the flow of your water. When we took the faucets off, we found heavy deposits so we had to take the pipe out and put in new.

Q. It would extend the life of the plumbing system, would it not?

A. If you want to say \$15.00 or \$20.00 extended

(Testimony of Joe L. Schmitt, Jr.)

the life, I will agree it probably would to that extent until it filled up again. How long it is going to take to fill up, I don't know.

Q. When a new bath tub was put in, didn't it require fixtures on the tub, too?

A. That was just your faucets. I had what you call the rough plumbing. I didn't change a bathroom from one place to another.

The Court: I suppose every repair extends the life of property to some degree. The problem here is really one of degree and I don't take seriously the witness' answer these items didn't extend the life of the property. I am satisfied it probably did. The real problem is how much, whether it is substantial or whether it is some of the things commonly regarded as capital outlay or whether expenditure of a minor character that is commonly regarded as repair. I am perfectly satisfied that these expenditures did extend the life of the property to some degree. How much is another matter. [63]

Q. (By Mr. Crouter): Mr. Schmitt, were any of these items shown by Exhibit 5-E expended on the small house? A. Oh, yes.

Q. Can you tell me whether it was mostly on the small house or how was it divided between the two houses?

A. I don't remember exactly. In other words, it was repair work. Some of the light switches were broken. In some places in the electrical outlets the plug was broken. You had to put new plugs in. A

(Testimony of Joe L. Schmitt, Jr.)

couple of places where the fixtures were broken you couldn't fix them.

Q. Will you please tell the Court even if you have to consult some of the records, the exact date you acquired the property?

A. The first part of December, 1951.

Q. You inspected the property prior thereto, I take it?

A. Not the houses inside, no, sir.

Q. When was the date you sold them?

A. I sold those houses, as I remember, the latter part of 1952 or the first part of 1953.

Q. Why did you buy them in the first place?

A. I bought those houses because they were situated on adjacent land consisting of four acres. I wanted to get rid of my citrus grove. The only way was to acquire the adjoining property so I could get the street between the two.

Q. What was the approximate purchase [64] price?

A. \$17,500 which I borrowed from the insurance company.

Q. What was the sales price of this particular property that you bought when you did sell it?

A. Of these two houses and an acre?

Q. The same land that went with it when you bought it?

A. I don't know how to answer you to be truthful because I bought four acres with houses on it. I cut an acre off the front with the two houses and

(Testimony of Joe L. Schmitt, Jr.)

took the other three acres and attached it to mine and made a subdivision.

Q. When you did sell these two houses, how much land went with the houses?

A. One short acre.

Q. What was the selling price of that approximate acre and the two houses that went with it?

A. \$12,000 or \$12,500.

Q. Did you treat this all as a capital gain proposition? A. Yes, sir, I did.

Q. Did it result in gain or loss?

A. It resulted in a slight gain the next year.

Q. When you purchased the property, had you then determined what you would do with the property—with the houses?

A. Yes, my intention was I was going to keep them for rentals because they were rentals.

Q. Were they occupied when you bought them?

A. Yes, sir. [65]

Q. Did the same tenants stay on?

A. They did until we got to repairing, painting all around inside. The people in the back house moved out because they were rather up in years and the smell of the paint bothered them but I rented it immediately after finishing repairs.

Q. I suppose you wanted to put the houses in better salable condition so you could sell the houses with the one acre along with them?

A. Mr. Crouter, if that was my intention, I would never have spent on repairs what I did. If I had in mind immediately I was going to sell them.

(Testimony of Joe L. Schmitt, Jr.)

I had no idea when I acquired those houses I was going to sell them. My purpose was to acquire them as rentals for income, take the back and add it to my acreage and sell it as a subdivision.

Q. You knew they needed repairing when you acquired them?

A. I saw the houses from the outside, knew they needed painting, which I did but I didn't know until my offer had been accepted, two or three days later when I asked the then owners to let me go through the house. That is when I found they needed repairs.

Q. Did you ever go through the inside of the houses and examine them prior to purchase?

A. No, sir, I did not.

The Court: We will have a short recess.

(Recess.) [66]

(The witness resumed the stand.)

Q. (By Mr. Crouter): Now, Mr. Schmitt, let's refer to these items with respect to the four employees. Who did they really work for in these years?

A. Exact-O-Matic Systems, Inc., of Arizona.

Q. Did they render exclusive service on the payroll of Exact-O-Matic System, Inc., of Arizona?

A. Exclusively on the payroll.

Q. I want to ask a few questions about Exhibit 4-D between you and the corporation. You may want to examine a copy of it. I notice this agree-

(Testimony of Joe L. Schmitt, Jr.)

ment particularly in Paragraphs 4, 5, and 6 on the second page provides that the Party of the Second Part, the Corporation would supervise the operations under this territorial agreement, etc. Now does that mean that it was the agreement of the corporation to supervise the training of the people who would operate the Exact-O-Matic System?

A. No, it would not specifically mean that at all. The word "supervision" means that when a territorial franchise holder, for instance, has a particular problem pertaining to a particular client on machine application on which the Exact-O-Matic System process is going to be used but, in addition thereto, some other applications may go along with it, they would be in position to be of help to assist him, etc.; in other words, pointing right back to the accounting application.

Q. You had a training system, did you not, for the [67] accountants who would subscribe to this service in the territories?

A. That is right, I did.

Q. Where was that training done?

A. Right here in Phoenix, Arizona.

Q. In what office?

A. 811 North Third Street, Phoenix, Arizona, my own individual office.

Q. How much of this corporation did you and your family own and control by stock ownership?

A. When the corporation was first organized and up until November 15, 1949, I held one share, my wife one share, and Robert Weaver held one

(Testimony of Joe L. Schmitt, Jr.)

share, the three shares being paid for by us by cash. On November 15, 1949, thirty-seven additional shares were issued to people other than my wife and myself or any members of my family. The stock was paid for in cash.

Q. How many shares were then outstanding?

A. Forty shares were then outstanding of which I had one share and my wife had one share.

Q. Did you have a position as an officer during these taxable years 1949, through 1951?

A. Up until November 15, 1949, I was an officer, my wife an officer, Mr. Weaver an officer. On November 15, 1949, Mr. Tom Deran became an officer, making the officers four.

Q. Did you continue after November 15, 1949, to be an [68] officer? A. Yes, I did.

Q. What was your position?

A. President.

Q. Referring back to the agreement 4-D, will you look at the first paragraph? Under that paragraph, as I understand it, will you please tell the Court whether you assigned over to the corporation all rights which you individually had under any registrations or applications?

Q. Are you talking about on the first page of Exhibit 4-D?

A. That is right.

Q. What paragraph?

A. Paragraph one and following with two, those two together. Will you please tell the Court

(Testimony of Joe L. Schmitt, Jr.)

whether all your rights and so forth were transferred to the Corporation by this agreement?

A. Absolutely not.

Q. Paragraph 2 on Page 1 of Exhibit 4-D starting on Page 1 where it says the company has "the exclusive right and privilege and franchise to use the registered trade name Exact-O-Matic System as its corporate name."

A. That is what I gave them, exclusive right to use it in the state of Arizona.

Q. What was your understanding as to whether you had retained anything with respect to the territorial holder [69] you had already made some territorial agreements?

A. With other territorial franchise holders other than Arizona?

Q. Yes. A. Yes, sir.

Q. Had you been able to establish the exact date in 1950 when Exhibit 4-D was signed or executed?

A. The Board of Directors of Exact-O-Matic of Arizona, Inc., ratified the agreement and signed it on the 23rd day of December, 1949.

Mr. Crouter: I call Counsel's attention to the fact it was dated 1950.

A. The agreement, when it was typed up, had it typed in here 1950. Frankly, I may not have signed it until the first part of January, 1950. That I don't remember but I do have a record, as far as the corporation is concerned, they approved it on the date I stated.

The Court: Exhibit 4-D is a photostatic copy. I

(Testimony of Joe L. Schmitt, Jr.)

ask Counsel if it is a photostatic copy of the original or if it is a photostatic copy of a copy.

Mr. Bauersfeld: It is a photostatic copy of the original.

The Court: Duplicate original?

Mr. Bauersfeld: It is a duplicate original. By that I mean carbon that was signed.

The Court: Exhibit 4-D was signed but apparently [70] there are blank spaces on the first page, as Mr. Crouter pointed out.

Mr. Crouter: I just thought he might be able to ascertain for the record more definitely when it was signed. May we pass on?

Q. Mr. Schmitt, referring to the rental matter with Remington Rand, was that agreement between Remington Rand with you individually or with the corporation?

A. I am sorry. I don't understand what you mean. Exact-O-Matic System of Arizona, Inc., were the ones that were renting the tabulation machines from Remington Rand. In the \$10,375 there was outstanding at that time obligations to Remington Rand for machine rental from Exact-O-Matic System of Arizona, Inc. In the settlement we made which was mutually agreed upon, I would pay the \$2,200 some dollars addition to the \$10,375 for the additional work they had done. So since they owed rental, I sat down and wrote my check to Remington Rand for the payment of the machines plus some \$120 for supplies.

(Testimony of Joe L. Schmitt, Jr.)

The Court: What were those machines used for, in what area?

A. These machines were used in Phoenix, Arizona.

The Court: Were they used to service clients, your clients, as distinguished from the clients of Exact-O-Matic Systems, Inc., of Arizona? [71]

A. I, myself, was not engaged in the bookkeeping business at that time. I was on tax work so these machines were used to process the bookkeeping of Exact-O-Matic System, Inc., of Arizona, and, in addition, I used the machine to train the personnel machine operators of other territorial franchise holders.

The Court: Who had the franchise for the Arizona area?

A. Frankly, there had never been a franchise granted for the Arizona area. It has always been used by Exact-O-Matic System, Inc., of Arizona but never reduced to writing.

The Court: Did you receive any kind of royalties with respect to that system in Arizona?

A. No, sir, I received no salary from the corporation, receiving no royalties, nothing.

The Court: How was it you received nothing, your interest in the corporation is apparently only one share out of 40?

A. For the simple reason that the people who are interested in it as stockholders had enough faith in Exact-O-Matic System to believe it would

(Testimony of Joe L. Schmitt, Jr.)

go over in which it was indicated it would until the time the Korean situation came about.

Q. Did the corporation have any properties of its own or operate out of your office?

A. No, it has assets of its own.

Q. What is the office address? [72]

A. 811 North Third Street, Phoenix, Arizona. Part of the building was occupied by an insurance company of Austin, Texas.

Q. Referring to the Remington Rand machines, they were in the office and used by Exact-O-Matic System, Inc., of Arizona? A. Yes.

Q. Had you guaranteed payment of rental with Remington Rand? A. I never have.

Q. With respect to the employees, had you guaranteed to them any payment of their compensation prior to that final settlement between you and the corporation? A. No, sir.

Q. Had they previously worked for you, any of those four people you named?

A. No, sir. Mr. Hammitt, Mr. McCowsky, Mr. Shepherd, Mr. Austin, when they commenced work with us were direct employees of the corporation and so hired by the corporation Exact-O-Matic Systems, Inc., of Arizona.

Q. Did I understand you to say you individually received money from the licensing out of the Exact-O-Matic System in the state of Arizona?

A. No, sir, I said I received nothing from the licensing of Exact-O-Matic System in the state of Arizona.

(Testimony of Joe L. Schmitt, Jr.)

Q. Was there anything, any system by which the corporation, the party of the second part, did have something similar [73] to the territorial agreements; in other words, was it used in Arizona?

A. It was used in Arizona but, as I previously stated——

The Court: Who got the royalties?

A. Nobody got the royalties because there were no royalties paid on the Arizona business.

The Court: Any payment of any kind made on the Arizona business? A. No, sir.

The Court: As to letting them out to any other company in Arizona?

A. No other company used.

The Court: You covered the state?

A. Not me, the corporation covered the state.

The Court: It dealt directly with clients, not with other accounts?

A. Yes, it did its bookkeeping for its clients.

The Court: You had no part of the fee which it received from those other clients?

A. That is correct, sir.

The Court: As I understand, the arrangement was uniform so the territorial holder and district holder in all states was the same?

A. That is correct.

The Court: But you yourself had a provision, as I [74] recall, in the agreement, I believe it was 1-A whereby you retained some right of designation or approval of any user such as a district holder, isn't that right?

(Testimony of Joe L. Schmitt, Jr.)

A. What paragraph are you referring to?

The Court: As it actually happened, did you pass upon such matters or did you leave such matters as the district franchise holder entirely to the territorial franchise holder?

A. The entire matter was left strictly with the territorial franchise holder. What you are referring to here is that I had the right of approval of the prospective district franchise holder insofar as the accounting ability was concerned, his integrity and financial responsibilities, that was all; in other words, I merely approved on those three things, that was all. The rest was left to the territorial man. It was his property.

The Court: With those three things, you can exercise a veto power of any license that the territorial man might wish to give to a district licensee, is not that correct?

A. That is correct, if he attempted to give to the butcher, baker or someone else, I could stop it because it has to be an accountant that could use no one else.

Q. Why did you usually have the same individual both as territorial holder and district holder?

A. That question is not clear. [75]

The Court: Why did the territorial franchise holder also have a district franchise? Why didn't he operate as a territorial franchise holder?

A. The district franchise was construed to be an operating franchise to dispense the services of Exact-O-Matic System to clients because he was a

(Testimony of Joe L. Schmitt, Jr.)

practicing public accountant. On that district franchise he paid a royalty but, by the same token, the royalty he paid as district franchise he kept half himself and remitted the other half to me. It was like paying a royalty. He put half in the right hand pocket and the other half he passed on.

The Court: One of the things I had in mind was a paragraph as shown in Exhibit 2-B at the bottom of Page 3: "The licensee covenants and agrees not to assign or transfer said license or any interest therein without the written consent of the franchise holder and approval of the patent holder." The franchise holder was your territorial holder?

A Yes.

The Court: But the patent holder was you?

A. Yes, sir.

Q. (By Mr. Crouter): As you actually operated, you closely watched this and supervised all the operations in the state, particularly with respect to any district holder?

A. If we are talking about the right to transfer, the same reason prevails here, that the district holder would [76] have to retain the right of franchise holder so it didn't get into the hands of some other person than a qualified accountant who couldn't use it.

Q. Regardless of whether it was a territorial holder or district holder under these various agreements, just the using of a process of bookkeeping, there was no physical property you actually trans-

(Testimony of Joe L. Schmitt, Jr.)

ferred over to any of these territorial district holders?

A. What do you mean by physical properties?

Q. No mechanical tangible property such as a Remington Rand machine.

A. That wiring unit is an integral part of what they got.

Q. Remington Rand manufactured it?

A. For me and I paid for it.

Q. Who would pay when a district holder in some other state such as Pennsylvania executed similar agreements to what we have here and started doing business that way? Do you mean to tell the Court you would purchase from Remington Rand the wiring mechanism that would be used by some one in Pennsylvania?

A. I will tell the Court the cost of that wiring was my expense, the rental of the other tabulation equipment which was a punch I had nothing to do with. Anybody could rent it. The Model 3 tabulator they paid for on a rental basis of \$543 some cents a month. They paid that direct to [77] Remington Rand, either as rent or on used purchase agreement or bought the machine outright but the general accountant wiring unit I paid for. That was my property. That is why we had it reduced to writing.

Q. Did you have an account directly with Remington Rand so you yourself paid for each one?

A. I wouldn't say I had an account but I mean when they were built it was shipped out. At that

(Testimony of Joe L. Schmitt, Jr.)

time I paid for the billing of the cost "260 some odd dollars, not a lot of money.

The Court: Was one of those made available to each licensee?

A. Each licensee has to have that, Your Honor, in order to complete the rental of the Exact-O-Matic process.

The Court: He couldn't sell it himself, could he?

A. No, sir.

The Court: As I recall, there was no licensee in any state that did sell it either with or without your permission?

A. No licensee ever sold it.

Q. (By Mr. Crouter): So the agreements we have stipulated covered all your dealings?

A. Yes, sir.

The Court: Let me get clear who owns those wiring units.

A. The first wiring unit went as part of the Exact-O-Matic process, the same as the manual of procedure, etc.

The Court: Who owned it, who bought it in the first [78] place?

A. Joe Schmitt. Then when he took a franchise he got that and I gave it to him and that is all, although I paid for it.

The Court: You gave it to the franchise holder?

A. I paid for the manufacturing of it because he had to have it and he paid me for the franchise, so that was part of it.

(Testimony of Joe L. Schmitt, Jr.)

Q. How many did you give to each franchise holder? A. One.

Q. So if a franchise holder had a number of district holders under him, would all the district franchise holders be served with one wiring unit?

A. Yes. He would place an order through the territorial man. He would set it on the basis of whether he wanted to buy Remington Rand equipment and would have it provided for him.

Q. Who would buy it from Remington Rand? Would you buy it? A. No.

Q. How would the district holder go about getting this wiring?

A. Let me tell you what actually happened. In other words District Franchise Holder X came in and bought it from the territorial franchise holder and paid for District Holder X the sum of \$5,000. He then in turn executed a used purchase agreement with Remington Rand to secure [79] the necessary tabulation equipment. He got the right to operate the district from the territorial man. He got a wiring unit which cost him nothing because I had paid for it when it was made.

Q. In other words, you provided the wiring unit to the district holder?

A. Right through the territorial man.

Q. Suppose you sold as you described the transaction, a territorial unit to some one in, say, State X who has no district holders under him but he can from time to time acquire district holders?

A. That is true.

(Testimony of Joe L. Schmitt, Jr.)

Q. Each time he acquires a district holder it becomes necessary to provide a wiring unit to such district holder? A. That is correct.

Q. This might occur over a period of a few weeks, over a period of months, or perhaps even years? A. That is correct.

Q. Each time a wiring unit is necessary, are you the one that provides it to the district?

A. In other words, the wiring unit is built from my own specifications.

Q. By whom?

A. By Remington Rand. In the ultimate end, I get charged for it and pay the bill for the construction, although it is shipped direct to the user because it is considered that [80] when he purchases a franchise, he makes that lump sum payment, he has paid for that as well as everything else that goes with the Exact-O-Matic System.

Q. So that every time a franchise holder acquires a new district holder, you personally through Remington Rand provide that new district holder with a wiring unit?

A. That is correct.

Q. Is there any arrangement with the district holder whereby he acquires title to this wiring unit or whether he acquires simply the right to use it, what is the arrangement with the district holder?

A. The arrangement is whatever is spelled out in his district franchise, that is part of whatever he gets from the purchase from the territorial man, if it be a district, in other words, everything he has

(Testimony of Joe L. Schmitt, Jr.)

a right title and interest to. In other words, we have made no exceptions.

Q. Is there a uniform method of arrangement with the district holders in this respect?

A. I don't say there is a uniform arrangement but a uniform pattern followed all the way through on the procedure we set up.

Q. What is that in relation to the ownership or rental or leasing or however you want to describe it, of this wiring unit?

A. The user, whether he be a district franchise holder [81] or territorial franchise holder, acquires the equipment. I am talking about the four units now that go to make up the tabulation. He either purchases it outright from Remington Rand or purchases it on what they call a use purchase plan or leasing agreement and pays a monthly rental.

Q. I am not talking about equipment from Remington Rand generally. I am talking about the wiring peculiar to the Exact-O-Matic process.

A. That order was the identical wiring unit we are referring to here, used in Exact-O-Matic System. That was ordered to be built and was built and delivered with the other tabulation equipment.

Q. It was built at your expense?

A. Built at my expense, delivered to him and eventually I was billed.

Q. Did you make it available to the district holder? Did you regard that as your machine, loaned out, so-called, to the district holder so long as he held a license?

(Testimony of Joe L. Schmitt, Jr.)

A. My understanding of it, as I said here, was under the terms of this district franchise he got from a territorial franchise holder, that was his property.

Q. Can you direct my attention to the exhibit that spells that out? You are talking about Exhibit 2-B. Will you direct my attention to the provision in that exhibit that does that? [82]

A. Down on the last part of Page 1 where it says: "The word 'patents' as used herein shall mean patents, patents pending, copyrights, registrations and any agreements, oral or otherwise, between the patent holder and Remington Rand, a Delaware corporation, heretofore or hereafter issued to Joe L. Schmitt, Jr., of Phoenix, Arizona." The oral agreement or written agreement, refers to the commitment they make that they would not manufacture, lease or sell that specific wiring unit to any person other than a licensed franchise holder.

The Court: I don't think that answers my question.

Q. (By Mr. Crouter): Mr. Schmitt, you have not shown here, as far as I recall, any payments whatever from you to Remington Rand on account of this wiring unit, have you? Is what you are trying to tell that you yourself had the idea and developed this wiring unit and it was incorporated in a Remington Rand bookkeeping machine, one of their regular machines in which they incorporated and built a machine which included your wiring unit?

A. Don't use the word bookkeeping machine

(Testimony of Joe L. Schmitt, Jr.)

because no bookkeeping machine is involved. This is tabulation equipment.

Q. Remington Rand manufactures other types of bookkeeping machines?

A. No, sir, no type of bookkeeping machine involved here. This is strictly tabulation equipment.

Q. Did Remington Rand construct a [83] tabulation machine separate and apart from anything previously invented?

A. Remington Rand created specifically from the specifications I submitted to them the wiring unit referred to here and the arrangement of the mechanisms in the printed tabulation specifically for users of the Exact-O-Matic System.

Q. Had Remington Rand prior to that manufactured any comparable accounting machine?

A. In the tabulation field you mean?

Q. Yes, sir A. No, sir, they had not.

Q. Referring to Exhibit 16, Mr. Schmitt. This is a photostat of a letter from Mr. Cooper, Supervisor of Sales Management, Controls Division of Remington Rand, the address being from Los Angeles, California, dated May 3, 1951. I call your attention to the second paragraph where it states in part: "This is to advise that we agree not to knowingly manufacture, lease or sell a tabulation wiring unit arranged with the exact specifications as wiring unit No. NB4-14055 or assign such number to any future wiring unit except for franchise holders of Exact-O-Matic," does that refresh your memory as to how that matter was handled and

(Testimony of Joe L. Schmitt, Jr.)

show Remington Rand itself really manufactured all of that and handled it under its contract with the franchise holders?

A. I don't think there is any question Remington Rand didn't manufacture or build [84] it.

Q. You had no cost of wiring unit in connection with the particular sale by Remington Rand in a way to some franchise holder in Pennsylvania, did you?

A. I did.

Q. How?

A. They charged me for construction of it.

Q. We don't have any documentary evidence on that.

A. I was never asked for any.

Q. Very well. Referring to the first agreement again, do you have that before you, Exhibit 1-A? Please turn to Page 6, Paragraph 15 in parenthesis refers to that paragraph which I would like to read: "Assignee agrees not to assign or dispose of this territorial assignment in whole or in part without the written consent of assignor." You were the assignor to that agreement as shown by the first party. Please tell the Court exactly what you retained there as far as your actual operations were concerned. In other words, how far would the territorial holders go without your permission.

A. The only limitation that Section 15 puts on the territorial assignee is just that he cannot assign it again to one who is not a qualified and competent accountant because it is wholly a tool of the accounting profession.

(Testimony of Joe L. Schmitt, Jr.)

Q. To put it another way, he didn't have complete power of disposition of it separate and apart from you?

A. I would say that he had up to that degree, full and [85] complete control over it except that he himself individually could not pass it on to someone else who couldn't possibly use it.

The Court: That isn't the way it reads. It is much broader than that. Paragraph 15 simply states the assignee agrees not to assign or dispose of this territorial assignment in whole or in part without the written consent of the assignor. As far as I can see, there are no limitations imposed upon the reasons why you would or would not give or withhold your consent. You had unlimited power to prevent his reassignment under that section.

A. I don't see it that way.

The Court: Will you direct my attention to such words or phrases in this paragraph that do limit your power?

A. I can't, Your Honor, because it states just what it states but I am going on past performance and the experience of this thing. In other words, you couldn't give it to some one who was not an accountant. I am quite certain if a pharmaceutical formula is transferred to some one it has to go into the hands of competent people to use it. It can't be scattered at will.

Q. Wasn't that because you had secured your registrations from the Government facilities, you

(Testimony of Joe L. Schmitt, Jr.)

had patent applications pending, your name was connected with it, you wanted to protect it? [86].

A. I wanted to protect the services. As you know, professional services can be good or bad, all depending on the one that renders that service. I didn't want it to fall into the hands of somebody who thought he was an accountant like one who thinks he is a lawyer, tries to practice law without knowing the law. That is the thing I was trying to protect.

Q. Do I recall your testimony correctly, when some territorial holder failed to go forward and use this system in any substantial degree, as originally contemplated, did anyone else take it over or did you designate someone else or did you just let it lapse?

A. No, sir, I never had anything presented to him where such and such was requested. Some of them failed because they split up partnerships. One of them had a fire.

Q. What happened to the wiring units?

A. They went back to Remington Rand and were put in stock until again called for to be used on another franchise.

Q. Did you get credit for them when they went back?

A. No, sir, they were carried on inventory; when released again, it was paid for. I only paid for the one.

Q. What happened the second time it was released?

A. It would be charged to me.

(Testimony of Joe L. Schmitt, Jr.)

Q. (By Mr. Crouter): Wasn't that handled entirely between your territorial holder and Remington Rand, as far as that wire unit was [87] concerned?

A. No, he set up the order but the one in charge of that you are referring to came to me.

Q. What was the approximate cost, the overall cost of a Remington Rand machine with this unit in it when a district holder, for instance, in Pennsylvania would make his contracts with Remington Rand?

A. \$543 some cents a month, \$33.00 to the U. S. Government for taxes which included \$173.45 for monthly maintenance service.

Q. Are you sure Remington Rand would sell outright and convey title to the entire machine including this unit?

A. If it were an Exact-O-Matic franchise holder?

Q. Yes. A. Yes.

Q. Were there occasions where the district holders did purchase that way?

A. Some acquired it under the used purchase plan.

Q. Did that happen and was it actually acquired, acquiring of title? A. Yes.

Q. What was the approximate overall charge of Remington Rand in such a case?

A. Including Federal tax and maintenance charges, around \$32,000. However, the machine can be bought for cash for around \$14,000 [88] to \$15,000.

(Testimony of Joe L. Schmitt, Jr.)

Q. This type of machine with the wiring unit?

A. Not the wiring unit but I mean the basic equipment can be bought from Remington Rand for that price.

Q. The \$32,000 figure was for one machine with this unit?

A. The tabulator multi control reproducing punch, the sorter and key punch on used purchase agreement which I said included Federal tax and monthly maintenance service brought the price to \$32,000.

The Court: That included acquisition of the wiring unit?

A. I paid for that \$260 some dollars. They furnished two other wiring units used for payrolls.

The Court: Suppose one of these district holders paid his \$32,000, did he acquire title to this wiring unit?

A. As far as I know he did.

The Court: He paid \$32,000 for all the other equipment of Remington Rand?

A. Yes.

The Court: Did you ever let go your hold on this wiring unit, did he acquire title, and, if so, by what means did he acquire title to this wiring unit?

A. As far as I know, he has acquired title to it. If you will pardon me, I am not an attorney. I am trying to tell you what we have done the way we proceeded.

The Court: I am trying to find what you did do.

Q. (By Mr. Crouter): It is all subject to

(Testimony of Joe L. Schmitt, Jr.)

your agreements [89] with the territorial and district holders? A. Yes.

Mr. Crouter: I have no further questions.

Redirect Examination

By Mr. Bauersfeld:

Q. Was there anything under the lease agreement with Remington Rand where, when the wiring units with the machines were sent back they were separate from the general equipment Remington Rand supplied?

A. No, the whole thing shipped back and carried there.

The Court: They were your units?

A. I paid for them. Right now I have my doubts whether they belonged to me or Remington Rand or the franchise holders at this particular point.

Q. If they were issued to some other district, there would be no further charge to you by Remington Rand because you had already paid for it once?

A. That is right because they wouldn't have to build a new one, so they wouldn't charge for it.

Q. You regarded yourself as having bought it when you made the payment the first time?

A. That is the only thing I could think of. I paid for something which I in turn gave the district franchise holder.

Q. When all the other components of Remington Rand went back to Remington Rand, this wiring unit accompanied it?

(Testimony of Joe L. Schmitt, Jr.)

A. That is right. By the same token, these district [90] franchise holders had various other wiring units they were using other than Exact-O-Matic double entry bookkeeping. They had as high as eight or ten wiring units. When the wiring units went back, all of the wiring units went back but the district franchise holder paid Remington Rand direct for the manufacturing of them.

The Court: This wiring unit was one you paid for?

A. That is right.

Q. At least, as of that time you regarded it as yours and were making it available to the district holder?

A. That is right. I figured it was something he paid the territorial man for.

Q. (By Mr. Bauersfeld): The fact is no district franchise holder gave the other equipment up, that equipment that was sent out to a district franchise holder?

A. That is right. There was never any transfer.

Q. So this never actually happened?

A. No, sir.

Q. In effect, the district franchise holder was really paying for it, the payment from a district franchise holder to territorial franchise holder, you got part of that, I think, 50%?

A. According to the territorial assignment.

Q. So, in effect, the district franchise holder was paying for it because that is what you were using to control [91] who got this from Remington Rand?

A. That is correct.

(Testimony of Joe L. Schmitt, Jr.)

Q. In fact, the district franchise holder was really paying for it?

A. That is right if you bring it around that way.

Mr. Crouter: Nothing further.

(Witness excused.)

The Court: Do you have anything further, Mr. Bauersfeld?

Mr. Bauersfeld: Nothing further.

Mr. Crouter: I would like to offer the originals of the individual income tax returns as Respondent's exhibits, Exhibit 5-E on stipulation, so that would be Exhibit F for the 1949 return, G for 1950 return.

The Court: Admitted.

(Respondent's Exhibits F and G were received in evidence.)

Mr. Crouter: The next would be the original of the 1951 return of both petitioners.

The Court: Admitted.

(Respondent's Exhibit H was received in evidence.)

Mr. Crouter: The record shows these were filed with the District of Arizona. May we have permission to substitute photostats for the benefit of all parties?

The Court: You may withdraw these exhibits for the purpose of obtaining photostats but I would prefer you [92] return the originals.

Mr. Crouter: Thank you.

The Court: Petitioner's briefs are due in 45 days; Respondent's 30 days thereafter. Petitioner may respond in 20 days.

The Clerk: Petitioner's brief, 45 days, May 10th; Respondent's 30 days thereafter, June 10th. Petitioner's, 20 days thereafter, July 1st.

(Whereupon, at 4:15 p.m. the hearing in the above-entitled petition was closed.)

Filed: April 18, 1957, T.C.U.S.

[Title of Tax Court and Cause.]

Docket No. 60267

FINDINGS OF FACT AND OPINION

Held:

1. An instrument, transferring rights to a territorial franchise holder in a bookkeeping procedure, containing provisions which in combination resulted in the retention by the transferor of substantial rights in the procedure, did not accomplish a sale or exchange within the meaning of Section 117(a), I.R.C. 1939. Nor is the transaction covered by Section 117(q).

2. Certain payments made by petitioner to or on behalf of a corporation in connection with furnishing a course of instruction and training in the use of such procedure were proper charges against petitioner's receipts from franchise holders and are deductible.

CARL F. BAUERSFELD, ESQ.,

For the Petitioners.

EARL C. CROUTER, ESQ.,

For the Respondent.

Respondent determined deficiencies in petitioners' income tax for the years 1949, 1950 and 1951 in the amounts of \$31.44, \$9,357.72 and \$2,643.40, respectively.

The issues, reduced to two by the parties, are first, whether certain transactions resulted in the sale or exchange of a capital asset, and second whether certain payments made by petitioner qualify as deductions.

Findings of Fact

Some of the facts were stipulated and are so found.

Petitioners Joe L. Schmitt, Jr. (hereinafter sometimes referred to as petitioner) and Helen M. Schmitt are, and were during the years 1949, 1950 and 1951, husband and wife. They filed joint income tax returns for those years with the then collector of internal revenue at Phoenix, Arizona.

Petitioner has engaged in accounting work since 1925. He and his wife reside in Phoenix, Arizona, and over the years his accounting work has been done in and around that city. In the course of his work he developed a procedure which converted, through the use of tabulating cards and certain

machines manufactured by Remington Rand Incorporated (hereinafter referred to as Remington Rand), single entry bookkeeping records into double entry records. Remington Rand did not manufacture these machines specifically to meet petitioner's needs. The machines were adapted to meet those needs by a wiring unit developed by petitioner, which was also manufactured by Remington Rand. He has not changed the procedure since 1947.

Petitioner named his procedure the Exact-O-Matic System. In April 1950 he applied to the United States Patent Office for the registration of two service marks and designs in connection with the Exact-O-Matic System. They were registered in December 1951.

Petitioner obtained copyrights to the following three pamphlets connected with his Exact-O-Matic System:

Title	Year of Copyright
Bookkeeping for Small Business.....	1946
Selling Exact-O-Matic System.....	1948
Exact-O-Matic System (Manual of Procedure)	1949

Petitioner made three applications for patents. Two of his applications listed his invention as a "Mechanical Method of Double Entry Bookkeeping." The third application concerned the same procedure. These applications were made in 1948, 1949 and 1952.

Remington Rand publicized petitioner's procedure. The petitioner did not solicit sales of the Exact-O-Matic System.

During the years 1949, 1950 and 1951 petitioner entered into a total of eleven substantially similar agreements (hereinafter called territorial assignments), the relevant provisions of which follow:

Territorial Assignment of Patent

* * *

Witnesseth:

In consideration of the sum of Ten Dollars (\$10.00), and other good and valuable consideration, paid to Assignor by Assignee, the parties have agreed as follows:

(1) Assignor covenants that he is the owner of the entire right, title and interest in and to those certain United States Patents, Patents pending, Registrations and Copyrights hereinafter referred to as "Exact-O-Matic System," and that he has not mortgaged, pledged, hypothecated, or otherwise encumbered the same or any right, title, or interest therein in any manner whatsoever.

(2) Assignor hereby grants unto Assignee the exclusive right, privilege and franchise to use and sell the said Exact-O-Matic System, (District, Unit A and Unit B) throughout the Territorial area described as follows:

All of the State of Oregon in addition to the counties of Cowlitz, Clark, Franklin, Walla Walla,

Columbia, and Benton of the State of Washington,¹ and to use, employ, and operate any and all methods, procedures, and processes covered by said Patents, Patents pending, Registrations, and Copyrights, within and throughout the Territorial Area, and also any reissues or extensions thereof during the entire term of said Patents, Registrations, and Copyrights, subject however, to the conditions and covenants hereinafter set forth. For the purposes of this agreement, the designation "Patent" is hereby defined to mean Patents, Patents pending, Registrations, Copyrights, and any oral or written agreement between the said "Assignor" and Remington Rand, Inc., a Delaware Corporation, heretofore or hereinafter issued to Assignor, relating to double entry machine bookkeeping methods, procedures, and processes.

(3) Assignee agrees to use their best efforts to establish and/or sell District, Unit A and Unit B franchises, throughout the Territorial area, and to that end agrees to divide the Territorial area into Districts, and to grant licenses to operate said Exact-O-Matic System in said District, upon the conditions hereinafter set forth.

Assignee agrees to create and establish district No. 1 Franchise, either in their own name or by the assignment of the District to a corporation controlled by them within thirty (30) days from the date of this agreement, such District to embrace

¹The assignments usually covered an area consisting of a single state.

the State of Oregon, Counties of Multnomah, Washington, Clackamas, Clatsop, Marion, Polk, Columbia, Yamhill, Tillamook and Lincoln, and the State of Washington, Counties of Clark and Cowlitz.

It is further understood and agreed that Assignee shall produce a minimum of sales of District Licenses, according to the following schedule:

On or before one year from the date of this Territorial Assignment, Assignee shall establish or sell a second District License, and every six months thereafter one additional District License, until a total of three District Licenses have been sold. The attached form of District License marked "Schedule A" shall be used in establishing said District Franchises.

Any sale of a District License, Unit "A" or Unit "B" License, to use said System shall be subject to approval of the Assignor, insofar as the competency and financial ability and integrity of the franchise applicant is concerned. All District License, Unit "A" and Unit "B" Licenses, shall be granted by the Assignee, subject to the conditions of that form of license marked "Schedule A, B, or C."

(4) Assignee agrees that in granting Licenses for District, Unit "A" or Unit "B" Licenses, they will use the same form of contract hereto attached (Schedule A, B, C) unless the parties hereto shall mutually agree upon a different form of contract.

The conditions of paragraph three (3) and four

(4), as above stated, are for the protection of all other Territorial Assignees and to further insure an adequate sale price to the Assignor.

(5) Assignee shall have the right to fix prices for the sale of all Licenses within their territory, but agrees not to sell any District License for less than three thousand dollars (\$3,000.00), excepting however the assignment of District No. 1 to a controlled corporation; or sell any Unit "A" or Unit "B" Licenses for less than one thousand dollars (\$1,000.00) without approval of Assignor. Assignee shall also have the right to fix the price of Exact-O-Matic service to be made by District licensees, Unit "A" and Unit "B" Licenses, to Licensees' customers for such services rendered.

(6) Assignee shall collect the sale price of each franchise granted within the territory and shall collect all royalties for the use of said Exact-O-Matic System, issued and granted by it pursuant to this agreement, and that when received it will pay to Assignor and/or his executors, administrators, and assigns, as his share of the business transacted within the territory herein described, the following:

(a) Sixty percent (60%) of the sales price of each District License, Unit "A" or Unit "B" License for said System and service, within the territory described herein; and in addition thereto:

(b) Fifty percent (50%) of the gross royalties collected from such territory by Assignee, which

royalties shall not be less than ten percent (10%) of the gross fees charged by licensees for service under said license. Assignee to retain fifty percent (50%) thereof as its share.

Assignee agrees to pay to assignor his share of sales of District, Unit "A" and Unit "B" Licenses and royalties by the fifteenth of each month for the preceding month's sales and royalties, and to accompany such payment with a detailed report of such receipts, including a duplicate of orders written for new business by the licensees within the said territory, and agrees that Assignor shall have access to the books and records of Assignee at all reasonable times for audit and examination.

(7) Assignee agrees to supervise all District, Unit "A" and Unit "B" Franchises and licenses in their territory and to use their best efforts and ability to promote and preserve the said business of each District, Unit "A" and Unit "B" licenses. Assignee further agrees to maintain a uniform type of service in conformity with the standard practice and in the manner prescribed by the methods, procedures, and process of Exact-O-Matic System, in all licensed operations within the territorial area.

* * *

(9) Assignor agrees to arrange, without any further charge, a course of instruction and to fully train and instruct at his office in Phoenix, Arizona, all personnel of Assignee required to operate the equipment, methods, and procedures as employed and used by and under Exact-O-Matic System, in

said District Number One License, provided, however, that all expenses of such personnel, including transportation to and from Phoenix, Arizona, and their living expenses during the course of training, shall be without cost to Assignor.

Assignee agrees to arrange and give a course of training and instructions to the accountant and tabulating operator in Exact-O-Matic System as outlined. Said course shall be given to the personnel of each District Franchise for a period of not less than thirty days, beginning with the personnel of the Second District Franchise.

Assignee further agrees to arrange and give a course of training and instructions to the accountant and tabulating operator in Exact-O-Matic System as outlined for the personnel of Unit "A" and Unit "B" Franchises, and shall arrange with said Franchise Holders compensation for such service rendered in training said personnel and for such other service as may be necessary in the installation of said Unit "A" and Unit "B" Franchises.

(10) Assignor agrees to use his best efforts with manufacturers of necessary equipment to procure same for use by assignee and its licensees, and agrees to procure such equipment designed and equipped with all devices necessary to process the work required under Exact-O-Matic procedure within three months of date order is accepted by Remington Rand therefor, by such Assignee or its licensees.

(12) Assignor agrees to defend at his own expense any litigation arising within or without the territorial area challenging his right to use any of the aforesaid patents to the end that all rights secured to Assignee herein may be preserved.

(13) Assignee shall select its own personnel and employees and have complete dominion and control over them, and Assignor shall have no dominion or control over any of said employees except such as may be necessary in the course of training provided for in paragraph numbered "9" of this agreement, it being the intent and purpose of this paragraph to evidence the fact that Assignee is the territorial owner of the patent, operating completely independent of Assignor. Assignee agrees to pay all taxes levied or assessed against them, including industrial or security taxes for their employees, and to file all necessary reports and returns therefor.

Whenever any license shall be granted under this Assignment, the licensee thereunder shall be the territorial owner of the patent, having complete dominion and control over his or its employees and shall accept full responsibility for all taxes levied or assessed by reason of the operation of such license and shall file all necessary returns required therefor.

* * *

(15) Assignee agrees not to assign or dispose of this Territorial Assignment in whole or in part without the written consent of Assignor.

The arrangement between petitioner and the holder of a territorial franchise (referred to as the "assignee" in the foregoing agreement) contemplated that the franchise holder, in turn, would establish a certain number of districts within his franchise area and would grant licenses covering each district. However, "District No. 1" within each franchise area was to be operated by the franchise holder himself or by a corporation controlled by such franchise holder. "Unit A" franchises were to be granted to single companies for their own bookkeeping purposes. "Unit B" franchises were to be granted to an accountant for a fixed number of customers. No Unit A or B franchise was ever issued.

Prior to November 15, 1949, petitioner, his wife and a person named Weaver each owned one share of the stock of the Exact-O-Matic Corporation (hereinafter referred to as the corporation). This corporation was incorporated in Arizona, and up until November 15, 1949, had only three shares of stock outstanding. On that day 37 additional shares were issued to new stockholders none of whom was a member of petitioner's family.

In December 1949 petitioner entered into an agreement with the corporation, the relevant provisions of which follow:

Witnesseth:

(1) Party of the First Part is the sole owner of the entire right, title and interest in and to those

certain United States Patents, Patents pending, Registrations and Copyrights referred to under that certain trade name "Exact-O-Matic System," and that he has not mortgaged, pledged, hypothecated, or otherwise encumbered the same, or any right, title, or interest therein in any manner whatsoever.

(2) Party of the First Part hereby grants unto the Party of the Second Part, subject, however, to the conditions and covenants hereinafter set forth in this agreement, and subject further to the provisions and limitations contained in the Territorial, District, Unit "A," Unit "B" and Unit "I" franchises issued or to be issued, the exclusive right, privilege and franchise to use the registered trade name Exact-O-Matic System as its corporate name, to promote the sale of Territorial franchises within and without the limits of the United States or its possessions, and to supervise the operation of said Territorial franchises already established or to be established.

(3) Party of the Second Part agrees to use its best efforts to promote and sell Territorial franchises throughout the United States and its possessions, it being understood and agreed that Party of the Second Part shall produce a minimum of sales of Territorial franchises of not less than five in any one calendar year or until all 48 States of the United States of America are sold, providing however tabulating equipment is available. In the event said tabulating equipment is not available due to

conditions beyond the control of the Party of the Second Part, then Party of the First Part shall waive this specific provision of this Agreement until such time as said equipment shall be available.

(4) Party of the Second Part agrees to use its best efforts in the supervision of those Territorial franchises already established and those territorial franchises to be established and further agrees to enforce and carry to completion the covenants and provisions contained in said Territorial franchises.

(5) Party of the Second Part agrees to arrange, without any charge, a course of instruction and to fully train and instruct the personnel of each Territorial franchise required to operate the tabulating equipment to be used in the Exact-O-Matic process in accordance with the provisions of the Territorial franchise.

* * *

(7) Party of the First Part agrees to pay to Party of the Second Part from the proceeds received from the sale of Territorial, District, Unit "A," Unit "B," and Unit "I" franchises an amount equal to:

25% of the Net Sale Price of each Territorial Franchise.

15% of the Net Sale Price of each District Franchise.

15% of the Net Sale Price of each Unit "A" Franchise.

15% of the Net Sale Price of each Unit "B" Franchise.

15% of the Net Sale Price of each Unit
“I” Franchise.

In addition to the amounts computed upon the basis of the above schedule, Party of the First Part agrees to pay to Party of the Second Part 25% of the royalties when received by Party of the First Part from the Territorial Franchise Holders, said royalty being ten percent (10%) of the gross fees for all service rendered by the Exact-O-Matic System process in all of the classifications of franchises granted.

In accordance with the provisions of the Territorial Franchise granted by Party of the First Part (Section 6-b) gross royalties are divided as follows:

Party of the First Part.....	25%
Territorial Franchise Holder.....	50%
Party of the Second Part.....	25%

(8) Party of the Second Part agrees not to assign or dispose of, mortgage, pledge, hypothecate or otherwise encumber this agreement or future proceeds therefrom in whole or in part without the written consent of the Party of the First Part.

Petitioner, both before and after November 15, 1949, was an officer of the corporation. Petitioner received neither salary nor royalties from the corporation. Petitioner, who was occupied with his own clients, did not aid the corporation in furnishing Exact-O-Matic service to its clients.

Petitioner received a letter from Remington Rand dated May 3, 1951, stating:

We have had considerable correspondence regarding the design of the wiring unit known as the General Accounting Wiring Unit # NB4-14055, which is used specifically by Exactomatic franchise holders as a set-up to enable them to use the Remington Rand Model 3 Tabulator to produce results known as "Double-Entry Bookkeeping."

This is to advise that we agree not to knowingly manufacture, lease, or sell a tabulating wiring unit arranged with the exact specifications as Wiring Unit # NB4-14055, or assign such number to any future wiring units, except for the franchise holders of Exactomatic Systems of Joe L. Schmitt, Jr.

Remington Rand charged petitioner \$260 for each wiring unit manufactured for the Exact-O-Matic System. This was so whether the Machine containing the wiring unit was rented or sold by Remington Rand. In the event it was rented the wiring unit would be returned to Remington Rand with the machine at the termination of the lease; such wiring unit belonged to petitioner, and if the machine, together with the unit, were subsequently rented, no further charge was made by Remington Rand to petitioner for the unit.

Petitioner has never applied for a copyright, trademark or patent other than in connection with the Exact-O-Matic System.

Notwithstanding the first above quoted paragraph of the territorial assignment (concerning the \$10 consideration) petitioner received the following net

amounts² in connection with the 11 territorial assignments entered into during the years in question:

1949	\$ 7,962.02
1950	36,992.00
1951	10,997.00

Additionally, in accordance with section 6(a) of the territorial assignments, petitioner received the following net amounts:

1949	\$ 0.00
1950	7,498.00
1951	1,799.00

Petitioner treated the net amounts received in accordance with section 6(a) and the net amounts received in place of the above-mentioned \$10 as gains from the sale or exchange of a capital asset. Respondent determined that these payments were ordinary income.

Amounts received by petitioner in accordance with section 6(b) of the territorial assignments were treated by him as ordinary income.

During the year 1949 petitioner personally carried out the obligations imposed on him by paragraph (9) of the territorial assignment.

During 1950 and 1951 "personnel" sent to Phoenix by territorial assignees to study the Exact-O-Matic System were trained by the corporation to

²"Net amounts" as here used mean total amounts received less certain uncontested offsets made in connection therewith.

operate the necessary machines and were given instruction in the use of the system.

Petitioner made payments to the corporation totaling \$10,375 in 1950 and \$3,020 in 1951. These amounts were calculated in accordance with their agreement. The corporation reported these payments on its income tax returns as ordinary income. Petitioner, in the course of computing his "long term gain" resulting from the territorial assignments treated these amounts as "expense(s) of sale" and reduced the amounts he received as a result of the territorial assignments accordingly. Respondent refused to allow any reduction in respect of the amounts thus paid to the corporation.

The management of the corporation felt that it had expended more money in 1950 on its training program than it had received under section (7) of its agreement with petitioner, and that it had rendered some training services on petitioner's behalf that were beyond those required of it by the agreement. Petitioner, in that year, issued personal checks, payable to Remington Rand in the total amount of \$2,268.20. These checks were in payment of amounts owed Remington Rand by the corporation in connection with machine rentals and the purchase of office supplies, and were issued by petitioner in recognition of a possible claim against him by the corporation. Petitioner treated the total amount of these checks as an expense incurred in his business and deducted it accordingly. Respondent disallowed the deduction.

Opinion

Raum, Judge:

1. Petitioner Joe L. Schmitt, Jr., had developed a process, utilizing tabulating cards, to convert ordinary single-entry bookkeeping data into double-entry bookkeeping records. He named the process the Exact-O-Matic System. The system was operated by use of standard Remington Rand mechanical equipment, as modified by a wiring unit designed by petitioner which was also manufactured by Remington Rand but which it had agreed not to sell or lease to anyone other than a franchise holder of the system. The system was intended for use by accountants in providing service for small businesses. Petitioner has applied for several patents and has obtained certain trade or service marks in connection with the system; also he has obtained copyrights of several pamphlets relating to the system.

During the years 1949-1951, he entered into eleven agreements, in each of which he granted to the other contracting party, referred to as the assignee or territorial franchise holder, a franchise with respect to the system throughout a specified area. In general, each such area covered a State, and it was petitioner's purpose to continue to issue similar franchises throughout the United States. The plan contemplated further that each territory would be divided into districts, and that the territorial franchise holder would, in turn, issue licenses for use of the system, presumably by accountants, for each

such district.³ Moreover, petitioner required each franchise holder, either alone or through a controlled corporation, to operate the system in one of those districts, referred to as "District No. 1."

In connection with the creation of each territorial franchise petitioner received a lump sum. Also, upon the issuance of licenses by the territorial franchise holder, a lump sum (referred to as the "sales price") was payable by the licensee to the territorial holder, and, pursuant to section 6(a) of the territorial franchise, 60 per cent of that lump sum was payable to petitioner. In addition, each licensee was required to pay royalties (which were to be not less than 10 per cent of the gross fees charged by the licensee for service under the license) to the franchise holder, and, pursuant to section 6(b) of the territorial franchise, the franchise holder, in turn, was required to pay 50 per cent of such royalties to petitioner.

We are called upon to decide whether the lump sums paid to petitioner directly in connection with the issuance of the territorial franchises and that portion of the lump sums collected from the licensees and paid over to him pursuant to section 6(a) of the territorial franchise agreements are to be treated as the proceeds from a "sale or exchange of a capital asset" under Section 117(a)(4), In-

³In addition to "District" licenses, the agreements also provide for the issuance of certain other licenses referred to as "Unit A" and "Unit B," but no such other licenses were ever issued.

ternal Revenue Code of 1939. Cf. also Section 117(q) of the Code, added by the Act of June 29, 1956, c. 464, 70 Stat. 404. Petitioners reported such amounts as long-term capital gains on their returns, and the correctness of the Commissioner's determination that they represented ordinary income is the principal issue before us. Petitioners reported their portion of the royalties received under section 6(b) of the territorial franchise agreements as ordinary income, and no question is here presented as to such royalties.

Petitioner contends that each of the agreements with the eleven territorial franchise holders resulted in a "sale or exchange of all his substantial rights in the Exact-O-Matic System to the territorial franchise holder, and that therefore the consideration received by him must be treated as the proceeds of a sale under Section 117, entitled to the preferred treatment accorded to capital gains under the Code. At the outset, it may be observed that his position is not consistent as to all of the consideration received, for, as noted above, the so-called section 6(b) royalties were reported as ordinary income and they are not in controversy herein. If the transactions were in fact sales then all the consideration received, whether denominated as "sales price" or as "royalties" would be regarded as proceeds of the sales. See *Rose Marie Reid*, 26 T.C. 622, 632.

Whether petitioner in fact transferred all of his substantial rights in the Exact-O-Matic System

within the area of each territorial franchise depends upon an appraisal of all of the evidence, particularly of the arrangements between petitioner and the territorial franchise holders. Referring to a transfer of patent rights in *Rose Marie Reid*, *supra*, we said (p. 632) :

Nor is the question governed by the use of particular words of art. The transaction suffices as a sale or exchange if it appears from the agreement and surrounding circumstances that the parties intended that the patentee surrender all of his rights in and to the invention throughout the United States or some part thereof, and that, irrespective of imperfections in draftsmanship or the peculiar words used, such surrender did occur. * * *

Cf. *Watkins v. United States*, F. 2d (C.A. 2, February 26, 1958). It is our conclusion, after a careful study of the entire record in the present case, that petitioner retained, in the aggregate, such continuing rights and interest in the system as to preclude reorganizing these transactions as sales.

An examination of the territorial assignment or franchise and the form of license or district franchise which the territorial holder was required to use in granting a district license amply discloses the broad range of rights, powers, and interests reserved by petitioner as well as the substantial limitations imposed upon the rights assigned to the territorial franchise holder, or assignee.

(a) The assignee agreed not to assign or dispose of his territorial franchise in whole or in part without petitioner's written consent. The veto power thus retained by petitioner upon disposition of the territorial franchise by the alleged purchaser from petitioner is completely without restriction. Petitioner retained the unlimited power to forbid or permit any sale or assignment of the territorial franchise holder's rights. Such sweeping control over one of the most important aspects of property ownership—the right to sell or dispose—is hardly consonant with the position that petitioner had sold all of his substantial rights in the system within the area of the territorial franchise.

(b) Petitioner's continuing interest is further shown by the territorial franchise holder's contractual undertaking to divide the franchise area into districts and to grant licenses upon conditions agreed to between the territorial franchise holder and petitioner.

(c) The territorial franchise holder was required to agree to establish "District No. 1," defined to embrace specified portions of the franchise area, in his own name or by assignment of the District to a controlled corporation within 30 days.

(d) The territorial franchise holder contracted to produce a minimum of sales of district licenses, according to a specified schedule.

(e) Any sale of a license by the territorial franchise holder was required to have petitioner's ap-

proval as to the competency, financial ability, and integrity of the applicant for the license, and the licenses themselves were to be subject to conditions contained in a specified form of license. The record before us does not contain that form, but there is in the record the actual license that was issued in the case of one District. Since the burden of proof is upon the petitioners, we must assume that the conditions in the form were no less onerous than those contained in the license itself, or that the parties had not meanwhile agreed upon a different form. Among such conditions were the following:

(i) Comprehensive provisions for the payment of royalties based upon a percentage of gross fees charged by the licensee, as well as provision for rendering monthly reports.

(ii) Provisions for making available licensee's books and records to the territorial franchise holder and petitioner.

(iii) Provisions granting territorial franchise holder the right to inspect and supervise the licensee's operation of the system to determine that service is being rendered in accordance with the standard practice and prescribed method.

(iv) Licensee's undertaking not to assign or transfer the license without the written consent of the territorial franchise holder "and approval of Patent owner."

(v) Upon death of licensee, his interest must pass to his estate, "and upon proper showing" to

the territorial franchise holder and petitioner, the license may be disposed of "to competent parties who are qualified to conduct the business of said district licensee subject to approval by Franchise Holder and Patent Owner."

(f) The territorial franchise holder could not sell licenses for less than specified minimum prices.

(g) In the issuance of licenses, the territorial franchise holder was forbidden to provide for royalties that would be less than 10 per cent of the fees charged by the licensee.

(h) The territorial franchise holder agreed to furnish petitioner with detailed monthly reports of sales and royalties, "including a duplicate of orders written for new business by the licensees."

(i) Books and records of territorial franchise holder were to be open to petitioner for audit and examination at all reasonable times.

(j) The territorial franchise holder was required to agree to supervise licenses, and to use best efforts to promote and preserve the business of each district and license; also, to maintain a uniform type of service in prescribed manner in all licensed operations within the territorial area.

(k) Petitioner reserved the right to terminate the franchise upon the holder's failure to make required payments of petitioner's share of sales and royalties.

(l) Petitioner obligated himself to furnish a course of instruction and training to "all personnel" of the territorial franchise holder "required to operate the equipment, method and procedures" of the Exact-O-Matic System; and, at the same time, he required the territorial franchise holder to give similar courses of instruction and training to licensees.

(m) Petitioner obligated himself to use his best efforts with manufacturers to obtain necessary equipment for use by the territorial franchise holders and licensees, and undertook to procure such equipment within three months of the acceptance of the order by Remington Rand.

(n) Petitioner agreed to furnish all sample forms "now or hereafter in use under Exact-O-Matic procedure." (Emphasis supplied.)

(o) Petitioner agreed to defend at his own expense any litigation challenging his "right to use any of the aforesaid patents."

We are of the opinion that the foregoing aspects of petitioner's relationship to the territorial franchise holder and the franchise itself are inconsistent with the position that he had disposed of all his substantial rights in the Exact-O-Matic System within each territorial area. It is important to note that we do not rest our conclusion upon any one of petitioner's retained interests or powers, and, without doubt, there are cases in which the reservation of some similar powers and rights has been held not to be fatal. We hold that all of the rights, powers, and

continuing interests reserved by petitioner, taken in combination, are of such character as to be inconsistent with a "sale or exchange" of property by petitioner, and that Congress did not intend to confer the special benefits relating to sales of capital assets in such situations. It is no answer to say that a number of the rights reserved by petitioner were merely to protect his interest in the system or to insure full payment for the assignments. That reason may explain why such reservations were made, but it does not detract from the conclusion that petitioner did not in fact dispose of all his substantial interest in the system by reason of such reserved rights when taken together with all other reserved rights, powers, and interests.

Section 117(q) of the Code, added by the Act of June 29, 1956, c. 464, 70 Stat. 404, referred to by petitioners, does not strengthen their position. Not only is it limited to transfers of patent rights, but it deals with transfers "of property consisting of all substantial rights to a patent, or an undivided interest therein which includes a part of all such rights." Our conclusion that the transfers herein (which involved far more than patent rights) were not made with respect to "all substantial rights" in the Exact-O-Matic System renders these new provisions inapplicable.

2. In their returns for 1950 and 1951 petitioners reduced the amounts received under the territorial franchises by \$11,375 and \$3,020, respectively, as "expense of sale." The Commissioner refused to al-

low \$10,375 of the reduction for 1950 and the entire \$3,020 reduction for 1951. These represent the net amounts paid by petitioner to the corporation, in accordance with their contract, for giving instruction and training to "personnel" of the territorial franchise holders. Petitioner was obligated to furnish such instruction and training, and we think it plain that his payments to the corporation for carrying out that obligation on his behalf were a proper charge against the amounts received from the franchise holders. We hold that they are deductible.

In addition, a question had arisen between petitioner and the corporation with respect to some training of accountants by the corporation that may have gone beyond the strict requirements of the contract between petitioner and the corporation. The corporation claimed that it was losing money on the entire arrangement, and the matter was settled by petitioner's payment of certain bills which the corporation owed to Remington Rand. These payments were made in 1950 and were in the aggregate amount of \$2,268.20. We hold that this amount is similarly a proper charge against petitioner's receipts and is likewise deductible.

3. A final issue relating to the deductibility of certain expenditures with respect to rental properties has been conceded by the Government on brief.

Decision will be entered under Rule 50.

Served: May 20, 1958.

The Tax Court of the United States

Washington

Docket No. 60267

JOE L. SCHMITT, JR., and HELEN M.
SCHMITT,

Petitioners,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

DECISION

Pursuant to the Findings of Fact and Opinion filed herein May 20, 1958, directing that decision be entered under Rule 50, the parties, on July 22, 1958, filed an agreed computation for entry of decision. It is therefore

Ordered and Decided: That there are deficiencies in income tax for the years 1949, 1950 and 1951 in the following amounts:

Year	Deficiency
1949	\$ 31.44
1950	4,382.06
1951	1,166.48

[Seal] /s/ ARNOLD RAUM,

Judge.

Entered: August 4, 1958.

Served: August 4, 1958.

In the United States Court of Appeals for the
Ninth Circuit

Tax Court Docket No. 60627

JOE L. SCHMITT, JR., and HELEN M.
SCHMITT,

Petitioners on Review,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent on Review.

PETITION FOR REVIEW

Come now Joe L. Schmitt, Jr., and Helen M. Schmitt, petitioners on review by their attorney, Robert Ash, and respectfully show:

I.

Jurisdiction

Petitioners on review are Joe L. Schmitt, Jr., and Helen M. Schmitt, husband and wife, whose address is 8540 North Central Avenue, Phoenix, Arizona. Petitioners on review filed Federal income tax returns for the taxable years 1949 to 1951, inclusive, with the Collector of Internal Revenue for the District of Arizona at Phoenix, Arizona, which is within the jurisdiction of the United States Court of Appeals for the Ninth Circuit wherein this review is sought.

Respondent on review (hereinafter referred to as "Commissioner") is the duly appointed, qualified and acting Commissioner of Internal Revenue appointed and holding his office by virtue of the laws of the United States.

This petition for review is filed pursuant to the provisions of §§ 1141 and 1142 of the Internal Revenue Code of 1939 and §§ 7482 and 7483 of the Internal Revenue Code of 1954.

II.

Prior Proceedings

On September 2, 1955, the Commissioner of Internal Revenue sent to the petitioners by registered mail a notice of deficiency in which he determined that the petitioners owed a deficiency in income tax for the taxable years 1949 to 1951, inclusive, in the total amount of \$12,032.56.

Thereafter the petitioners duly filed an appeal from said determination with the Tax Court of the United States. The case was tried before the Honorable Arnold Raum, Judge of the Tax Court of the United States, on March 25, 1957, in Phoenix, Arizona. On May 20, 1958, the Tax Court promulgated its findings of fact and opinion written by Judge Raum. On August 4, 1958, the Tax Court entered its decision ordering and deciding that the petitioners owed deficiencies in income tax for the taxable years 1949 to 1951, inclusive, as follows:

Year	Deficiency
1949	\$ 31.44
1950	4,382.06
1951	1,166.48

Petitioners on review petition the United States Court of Appeals for the Ninth Circuit to review the order and decision entered by the Tax Court of the United States on August 4, 1958, wherein and whereby it was ordered and decided that there is a deficiency in income tax for the years 1949 to 1951, inclusive, in the amounts as follows:

Year	Deficiency
1949	\$ 31.44
1950	4,382.06
1951	1,166.48

III.

Nature of the Controversy

Petitioner Joe L. Schmitt, Jr., (hereinafter referred to as "petitioner") and Helen M. Schmitt are and were during the years 1949, 1950, and 1951, husband and wife. They filed joint income tax returns for those years with the Collector of Internal Revenue at Phoenix, Arizona.

Petitioner Joe L. Schmitt, Jr., had developed a process utilizing tabulating cards to convert ordinary single-entry bookkeeping data into double-entry bookkeeping records. He named the process the "Exact-O-Matic System." The system was operated by use of standard Remington Rand me-

chanical equipment, as modified by a wiring unit designed by petitioner, which was also manufactured by Remington Rand but which it had agreed not to lease or sell to anyone other than a franchised holder of the system. The system was intended for use by accountants in providing service for small businesses. Petitioner had applied for several patents and has obtained certain trade or service marks in connection with the system. Also, he has obtained copyrights of several pamphlets relating to the system.

During the years 1949-1951, inclusive, petitioner entered into eleven agreements whereby he granted to the assignees the exclusive right, privilege, and franchise to use and sell the Exact-O-Matic System throughout a designated or specified territorial area. These agreements are entitled "Territorial Assignment of Patent." By these agreements, the petitioner assigned all of his rights in the trade or service mark, name, patents, and patent applications in perpetuity to the assignee with no provision for reversion except for nonpayment of the consideration set forth in the agreement.

In consideration for said assignments, the assignees paid petitioner during the years 1949, 1950, and 1951, lump sum payments in the amount of \$7,965.02, \$38,000.00, and \$11,000.00, respectively. In addition, during the years 1950 and 1951, as part of the purchase price for the rights granted under the territorial assignments, petitioner received from the territorial assignees, the sums of \$7,500.00 and

\$1,800.00, respectively, for the licensing by the territorial assignees of "District Franchises" within their territorial area. The petitioners reported the proceeds from the sale or assignment of the "Territorial Assignment of Patent" to the eleven assignees as gain from the sale of a capital asset. The Commissioner of Internal Revenue and the Tax Court held that the gain resulting from the sale or assignment was taxable as ordinary income. The question presented by this appeal is whether the proceeds received by petitioner from the sale or assignments of "Territorial Assignment of Patent" to the assignees during the years 1949, 1950, and 1951, is taxable as ordinary income or as capital gain.

/s/ ROBERT ASH,

Attorney for Petitioners on
Review.

Received and Filed October 24, 1958, T.C.U.S.

[Title of Tax Court and Cause.]

CERTIFICATE

I, Howard P. Locke, Clerk of the Tax Court of the United States, do hereby certify that the foregoing documents, 1 to 24, inclusive, constitute and are all of the original papers on file in my office as called for by the "Designation of Contents of Record on Review" (including exhibits 1-A through 5-E attached to the stipulation of facts, but excepting the remainder of the exhibits which were

admitted in evidence which are separately certified and transmitted herewith) in the case before the Tax Court of the United States docketed at the above number and in which the petitioners in the Tax Court have filed a petition for review as above numbered and entitled, together with a true copy of the docket entries in said Tax Court case, as the same appear in the official docket in my office.

In testimony whereof, I hereunto set my hand and affix the seal of the Tax Court of the United States, at Washington, in the District of Columbia, this 24th day of November, 1958.

[Seal] /s/ HOWARD P. LOCKE,
Clerk, Tax Court of the
United States.

[Endorsed]: No. 16431. United States Court of Appeals for the Ninth Circuit. Joe L. Schmitt, Jr., and Helen M. Schmitt, Petitioners, vs. Commissioner of Internal Revenue, Respondent. Transcript of the Record. Petition to Review a Decision of the Tax Court of the United States.

Filed: January 19, 1959.

Docketed: January 29, 1959.

/s/ PAUL P. O'BRIEN,
Clerk of the United States Court of Appeals for
the Ninth Circuit.

[Title of Court of Appeals and Cause.]

STATEMENT OF POINTS

The points on which petitioners intend to rely in this appeal from the Opinion and Final Order entered by the Tax Court of the United States are:

1. The Tax Court of the United States erred in determining that there are deficiencies in income tax for the years 1949, 1950, 1951 in the amounts of \$31.44, \$4,382.06, \$1,166.48, respectively.

2. The Tax Court of the United States erred in holding and deciding that the proceeds from the sale by petitioner, Joe L. Schmitt, Jr., of his rights in the Exact-O-Matic System to territorial assignees during the years 1949 to 1951, inclusive, were taxable as ordinary income instead of at capital gains rates.

3. The Tax Court of the United States erred in failing to hold that the proceeds from the sale by petitioner, Joe L. Schmitt, Jr., of his rights in the Exact-O-Matic System to territorial assignees during the years 1949 to 1951, inclusive, were taxable as the sale of a capital asset.

4. The Tax Court of the United States erred in failing to hold that the proceeds from the sale by petitioner, Joe L. Schmitt, Jr., of his rights in the Exact-O-Matic System to territorial assignees during the years 1949 to 1951, inclusive, were taxable as a sale of exchange of a capital asset under Section 117(a) of the Internal Revenue Code of 1939.

5. The Tax Court of the United States erred in failing to hold that the proceeds from the sale by petitioner, Joe L. Schmitt, Jr., of his rights in the Exact-O-Matic System to territorial assignees during the years 1949 to 1951, inclusive, were taxable as a sale or exchange of a capital asset under Section 117(q) of the Internal Revenue Code of 1939, added by the Act of June 29, 1956, c. 464, 70 stat. 404.

6. The Tax Court of the United States erred in holding that petitioner retained in the aggregate such continuing rights and interest in the Exact-O-Matic System as to preclude recognizing the sales or assignments as sales.

7. The Tax Court's Opinion and Decision are not supported by the evidence.

8. The Tax Court's Opinion and Decision are contrary to law.

Respectfully submitted,

/s/ ROBERT ASH,

Attorney for Petitioners on
Review.

Service of copy acknowledged.

[Endorsed]: Filed January 29, 1959, U.S.C.A.

IN THE
United States Court of Appeals

FOR THE NINTH CIRCUIT

No. 16,341

JOE L. SCHMITT, JR., and HELEN M. SCHMITT, *Petitioners*

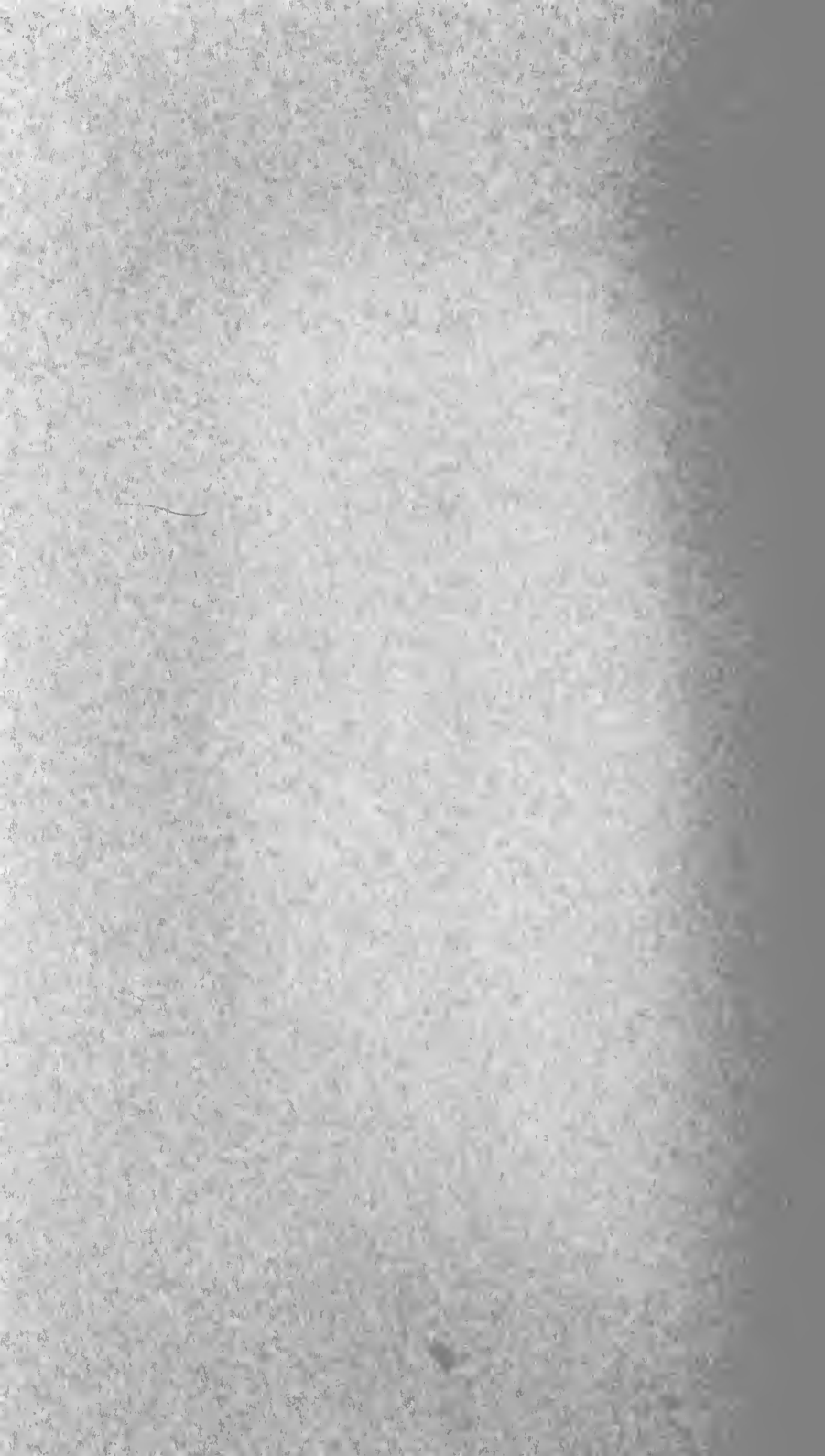
v.

COMMISSIONER OF INTERNAL REVENUE, *Respondent*

**Petition to Review a Decision of The Tax Court
of the United States**

PETITIONERS' BRIEF

ROBERT ASH
CARL F. BAUERSFELD
1921 Eye Street, N. W.
Washington, D. C.
Attorneys for Petitioners



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IN THE
United States Court of Appeals

FOR THE NINTH CIRCUIT

No. 16,341

JOE L. SCHMITT, JR., and HELEN M. SCHMITT, *Petitioners*

v.

COMMISSIONER OF INTERNAL REVENUE, *Respondent*

**Petition to Review a Decision of The Tax Court
of the United States**

PETITIONERS' BRIEF

JURISDICTIONAL STATEMENT

Jurisdiction of the Tax Court

Petitioners on review filed Federal Income Tax Returns for the taxable years 1949, 1950, and 1951 with the Collector of Internal Revenue for the District of Arizona at Phoenix, Arizona, (R. 137). On September 2, 1955, the Commissioner of Internal Revenue sent to petitioners, by Registered Mail, a notice of deficiency in which he deter-

mined that the petitioners owed deficiencies in income tax as follows:

Year	Deficiency
1949	\$ 31.44
1950	9,357.72
1951	2,643.40
	<hr/>
Total	\$12,032.56

(R. 11)

Thereafter, on November 25, 1955, petitioner duly filed appeals from said determination with the Tax Court of the United States (R. 3-19). The case was tried before the Tax Court on March 25, 1957. The Tax Court promulgated its findings of fact and opinion (R. 136-162) and entered its decision ordering and deciding that the taxpayers owed deficiencies in income tax as follows:

1949	\$ 31.44
1950	4,382.06
1951	1,166.48

The decision was entered August 4, 1958, (R. 163).

Jurisdiction of Court of Appeals

Petition for review was filed October 24, 1958, to review the order and decision entered by the Tax Court on August 4, 1958, (R. 164-168). Jurisdiction is conferred upon this Court by Sections 1141 and 1142 of the Internal Revenue Code of 1939, and Sections 7482 and 7483 of the Internal Revenue Code of 1954.

QUESTION PRESENTED

Petitioner Joe L. Schmitt, Jr., invented a mechanical process utilizing tabulating cards to evaluate single entry information, which produces double entry bookkeeping and accounting statements. During the years here involved,

he sold all his rights in this system known as the "Exact-O-Matic System", in certain territories. Petitioners reported the proceeds from the sales as the sale of a capital asset. The Commissioner of Internal Revenue determined the proceeds from the sales were ordinary income.

The question for decision is: Were the proceeds from the sales of the Exact-O-Matic System during the years here involved taxable as capital gains or as ordinary income?

STATUTES INVOLVED

Internal Revenue Code of 1939

(for the taxable years beginning after December 31, 1941)

SEC. 117. CAPITAL GAINS AND LOSSES

(a) *Definitions*.—As used in this chapter—

(1) *Capital assets*.—The term "capital assets" means property held by the taxpayer (whether or not connected with his trade or business), but does not include stock of trade of the taxpayer or other property of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business, or property, used in the trade or business, of a character which is subject to the allowance for depreciation provided in section 23 (1), or any obligation of the United States or any of its possessions, or of a State or Territory, or any political subdivision thereof, or of the District of Columbia, issued on or after March 1, 1941, on a discount basis and payable without interest at a fixed maturity date not exceeding one year from the date of issue, or real property used in the trade or business of the taxpayer.

* * * * *

(for taxable years beginning after September 23, 1950)

SEC. 117. CAPITAL GAINS AND LOSSES.

(a) *Definitions*.—As used in this chapter—

(1) *Capital assets*.—The term “capital assets” means property held by the taxpayer (whether or not connected with his trade or business), but does not include—

(A) stock in trade of the taxpayer or other property of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business;

(B) property, used in his trade or business, of a character which is subject to the allowance for depreciation provided in section 23(1), or real property used in his trade or business;

(C) a copyright; a literary, musical, or artistic composition; or similar property; held by—

(i) a taxpayer whose personal efforts created such property, or

(ii) a taxpayer in whose hands the basis of such property is determined, for the purpose of determining gain from a sale or exchange, in whole or in part by reference to the basis of such property in the hands of the person whose personal efforts created such property; or

* * * * *

(q) (as added by Section 1 of the Act of June 29, 1956, c. 464, 70 Stat. 404) *Transfer of patent rights*.—

(1) *General rule*.—A transfer (other than by gift, inheritance, or devise) of property consisting of all substantial rights to a patent, or an undivided interest therein which includes a part of all such rights, by any holder shall be considered the sale or exchange of a capital asset held for more than 6 months, regardless of whether or not payments in consideration of such transfer are—

(A) payable periodically over a period generally coterminous with the transferee's use of the patent, or

(B) contingent on the productivity, use, or disposition of the property transferred.

* * * * *

(4) Applicability.—This subsection shall apply with respect to any amount received, or payment made, pursuant to a transfer described in paragraph (1) in any taxable year beginning after May 31, 1950, regardless of the taxable year in which such transfer occurred. As amended Jan. 28, 1956, c. 18, § 1, 70 Stat. 8; June 29, 1956, c. 464, § 1, 70 Stat. 404.

STATEMENT OF CASE

Petitioner, Joe L. Schmitt, Jr. (hereinafter sometimes referred to as petitioner), and Helen M. Schmitt are, and were during the years 1949, 1950 and 1951 husband and wife. They filed joint income tax returns for those years with the then Collector of Internal Revenue at Phoenix, Arizona (R. 137).

Petitioner has engaged in accounting work since 1925 in the state of Arizona and particularly in and around the City of Phoenix (R. 55, 137). He was the inventor and sole owner of certain applications for patents, copyrights and registrations referred to under the trade name "Exact-O-Matic System". The system is an accounting method described as being an automatic, mechanical process utilizing tabulating cards to evaluate single entry information which produces double entry bookkeeping and accounting statements. The Exact-O-Matic is designed for use by accountants who render bookkeeping services to small businesses (R. 22, 81-82, 85-86, 137-138).

An accountant who is trained in the Exact-O-Matic System with Remington-Rand tabulating equipment and the general accounting wiring unit designed by the petitioner can economically service a large number of small business accounts (R. 82). In connection with the Exact-O-Matic System, petitioner made applications for patents, obtained and registered trade or service marks, and ob-

tained certain copyrights in connection with literature describing the Exact-O-Matic system and the procedure manual for using this system. In addition, the petitioner designed a general accounting wiring unit to be used in the printing tabulator of the Remington-Rand Tabulating Machine for use in connection with the Exact-O-Matic System. Petitioner had an agreement with Remington-Rand, Inc., whereby Remington-Rand agreed not to manufacture, lease, or sell the general accounting wiring unit to anyone except the franchise holders of the Exact-O-Matic System (R. 62-67, 138, 149-150).

During the years here involved, petitioner entered into eleven agreements whereby he granted to the assignees the exclusive right, privilege, and franchise to use and sell the Exact-O-Matic System throughout a designated or specified territorial area. These agreements were entitled "Territorial Assignments of Patent". By these assignments the petitioner assigned all his rights in the trade or service marks, name, patents, and patent applications in perpetuity with no provision for reversion except for nonpayment of the consideration set forth in the agreement. Specifically, under paragraph 2 of the Territorial Assignment of Patent, it was provided: (R. 24-25)

"Assignor hereby grants unto Assignee the exclusive right, privilege and franchise to use and sell the said Exact-O-Matic System (District, Unit A and Unit B), throughout the Territorial area described as follows:

" * * * and to use, employ, and operate any and all methods, procedures, and processes covered by said Patents, Patents pending, Registration, and Copyrights, within and throughout the Territorial Area, and also any reissues or extensions thereof during the entire term of said Patents, Registrations, and Copyrights, subject, however, to the conditions and covenants hereinafter set forth. For the purposes of this agreement, the designation 'Patent' is hereby defined to mean Patents, Patents pending, Registrations, Copyrights, and any oral or written agreement between

the said 'Assignor' and Remington-Rand, Inc., a Delaware Corporation, heretofore or hereinafter issued to Assignor, relating to double entry machine book-keeping methods, procedures, and processes."

In consideration for said assignments, the assignees paid petitioner during the years 1949, 1950 and 1951 lump sum payments in the amount of \$7,965.02, \$38,000.00 and \$11,000.00, respectively. In addition, during the years 1950 and 1951, as a part of the purchase price for the rights granted under the territorial assignments, the petitioner received from the territorial assignees the sums of \$7,500.00 and \$1,800.00, respectively, for the licensing by the territorial assignees of "District Franchises" within their territorial areas. These payments were made by the territorial assignees to the petitioner under the licensing of district franchises pursuant to paragraph 6 (a) of the territorial assignment of patents. Under the territorial assignments the assignees were given complete authority to sell or license the rights they had received from the petitioner in their territorial areas. It was further provided that the territorial assignees would collect royalties from the district franchise holders or licensees for use of the Exact-O-Matic System and that when received the territorial assignee would pay to the petitioner-assignor fifty per cent of the gross royalties collected. This was provided for by paragraph 6 (b) of the territorial assignment of patents. All amounts paid to petitioner as royalties under paragraph 6 (b) were reported by petitioner as ordinary income and are not involved in this proceeding (R. 27-28, 43, 91, 94).

The petitioner reported the proceeds from the sales under the territorial assignments of patents as long-term capital gain. The Commissioner determined that the proceeds were taxable as ordinary income. The Tax Court sustained the Commissioner and held that the petitioner did not dispose of all substantial interest in the system (R. 160-161).

SPECIFICATION OF ERRORS

The Tax Court of the United States erred:

1. In determining that there are deficiencies in income tax for the years 1949, 1950, 1951 in the amounts of \$31.44, \$4,382.06, \$1,166.48, respectively.

2. In holding and deciding that the proceeds from the sale by petitioner, Joe L. Schmitt, Jr., of his rights in the Exact-O-Matic System to territorial assignees during the years 1949 to 1951, inclusive, were taxable as ordinary income instead of at capital gains rates.

3. In failing to hold that the proceeds from the sale by petitioner, Joe L. Schmitt, Jr., of his rights in the Exact-O-Matic System to territorial assignees during the years 1949 to 1951, inclusive, were taxable as the sale of a capital asset.

4. In failing to hold that the proceeds from the sale by petitioner, Joe L. Schmitt, Jr., of his rights in the Exact-O-Matic System to territorial assignees during the years 1949 to 1951, inclusive, were taxable as a sale or exchange of a capital asset under Section 117 (a) of the Internal Revenue Code of 1939.

5. In failing to hold that the proceeds from the sale by petitioner, Joe L. Schmitt, Jr., of his rights in the Exact-O-Matic System to territorial assignees during the years 1949 to 1951, inclusive, were taxable as a sale or exchange of a capital asset under Section 117 (q) of the Internal Revenue Code of 1939, added by the Act of June 29, 1956, c. 464, 70 stat. 404.

6. In holding that petitioner retained in the aggregate such continuing rights and interest in the Exact-O-Matic System as to preclude recognizing the sales or assignments as sales.

7. In that its Opinion and Decision are not supported by the evidence.

8. In that its Opinion and Decision are contrary to law.

ARGUMENT

The proceeds from the sale of the Exact-O-Matic System to Territorial Assignees during the years here involved are taxable as capital gains.

The question for decision is whether petitioner conveyed all his "substantial rights" in the Exact-O-Matic System to the territorial assignees. The petitioner contends that he transferred all his "substantial rights." The Tax Court held that because certain rights were reserved the petitioner did not dispose of all his substantial rights in the Exact-O-Matic System. (R. 160-161) It is the petitioner's position that there was a sale or exchange of property within the definition of such sale or assignment as is set forth in the landmark case of *Waterman v. Mackenzie*, 138 U.S. 252, 34 L. Ed. 923, 11 S. Ct. 334, where it is said:

" * * * The patentee or his assigns may, by instrument in writing, assign, grant and convey, either, 1st, the whole patent, comprising the exclusive right to make, use and vend the invention throughout the United States; or 2d, an undivided part or share of that exclusive right; or, 3d, the exclusive right under the patent within and throughout a specified part of the United States. * * * "

The law regarding the sale or exchange of patents is succinctly set forth in the case of *Watson v. United States*, (CA-10, 1955), 222 F. (2d) 689, 47 AFTR 925, as follows:

“(1) It is a firmly accepted principle of law that if the patentee conveys by an instrument in writing the exclusive right to make, use, and vend the invention throughout the United States, or an undivided part or share of that exclusive right, or the exclusive right under the patent within a specified area within the United States, the conveyance constitutes an assignment of the patent, complete or partial as the case may be; and that a transfer short of that is not an assignment but a license. *Waterman v. Mackenzie*, 138 U.S. 252, 11 S.Ct. 334, 34 L.Ed. 923; *United States*

v. General Electric Co., 272 U.S. 476, 47 S.Ct. 192, 71 L.Ed. 362; Doherty Research Co. v. Vickers Petroleum Co., 10 Cir., 80 F.2d 809, certiorari denied 299 U.S. 545, 57 S.Ct. 9, 81 L.Ed. 401; Broderick v. Neale, 10 Cir., 201 F.2d 621. In language too clear for doubt, the agreement into which Watson and O'Donnell entered expressly granted to Telescope Carts, Inc., the exclusive right to make, use, and vend the carts throughout the United States."

See also: *Rose Marie Reid*, 26 T.C. 622.

Applying the foregoing principles to the facts in the instant case, it can be seen that the petitioner transferred for value all of his rights in the Exact-O-Matic System throughout a specified area to the assignees. There was no time limitation on the grant. The assignees had the right to make, use and sell the Exact-O-Matic System within the meaning of *Waterman v. Mackenzie*, 138 U.S. 252, 34 L. Ed. 923, 11 S. Ct. 334. The assignees received both legal and equitable title to petitioner's rights without any possibility of reverter or termination except for non-payment of the consideration set forth in the agreement.

The opinion of the Tax Court does not point out any particular right that was reserved by the petitioner that would prevent the transactions here involved from being a sale or exchange. Rather, the Court points out various rights of the parties to the contract and then concludes: (R. 160-161)

"It is important to note that we do not rest our conclusion upon any one of petitioner's retained interests or powers, and, without doubt, there are cases in which the reservation of some similar powers and rights has been held not to be fatal. We hold that all of the rights, powers, and continuing interests reserved by petitioner, taken in combination, are of such character as to be inconsistent with a 'sale or exchange' of property by petitioner, and that Congress did not intend to confer the special benefits relating to sales of capital assets in such situations. * * *"

A realistic approach to the problem will show that the rights retained were not substantial and did not infringe upon the assignees' full enjoyment to make, use, and sell the Exact-O-Matic System within the specified territorial area conveyed to him. Some of the rights reserved were to insure full payment for the transfer involved. Other rights reserved were to protect not only the petitioner's interest in the System but to protect other assignees who had purchased the rights to use and sell the Exact-O-Matic System in other territories. It should be pointed out that petitioner as the assignor reserved no right of supervision, dominion or control over the assignee as owner of the Exact-O-Matic System in his territorial area.

The first reservation in the Territorial Assignment of Patent which the Tax Court points out as being a substantial limitation imposed upon the rights assigned to the territorial franchise holder is set forth in paragraph 15 of the Territorial Assignment of Patent. (R. 32, 156-157) Under paragraph 15 the assignee agrees not to assign or dispose of his territorial franchise in whole or in part without petitioner's written consent. The Tax Court does not discuss the evidence behind this provision. The record shows that the reason for the restriction is that the Exact-O-Matic System is a tool of the accounting profession. The intent behind this restriction was to see that the Exact-O-Matic System did not fall into the hands of persons who were professionally unsuited to use the system. Consequently, the intent was to protect the value of the system by maintaining high standards of skill and integrity in its overall operation. (R. 92) This provision was designed not only to protect the assignor but to protect other assignees who had purchased the rights to use and sell the Exact-O-Matic System in other territories. The fact that the transferee must obtain the consent of the transferor before licensing others to use a patent did not preclude a sale in the case of *Watson v. United States*, (CA-10, 1955) 222 F. (2d) 689, 47 AFTR 925. The con-

tract or assignment in that case contained a provision that the right of the licensee thereunder should not be assigned without the consent of the licensor having been obtained in writing. In discussing this provision requiring consent of the assignor for the assignment of the rights sold, the Court said:

“The contract contained a further provision that the rights of the licensee thereunder should not be assigned without the consent of the licensor having been obtained in writing. That precautionary provision was intended to protect the rights of the parties under the contract, not to proscribe, limit, or nullify their intent and purpose to vest immediately in the transferee the right to manufacture, sell, and use the carts throughout the life of the patent, as well as any extension or extensions thereof. *Platt v. Fire-Extinguisher Manufacturing Co.*, 3 Cir., 59 F. 897; *Commissioner of Internal Revenue v. Celanese Corp.*, *supra*; *Carl G. Dreyman*, 11 T.C. 153.”

In the case of *Rollman v. Commissioner*, (CA-4, 1957), 244 F. 2d 634, 51 AFTR 445, the taxpayers granted an exclusive license to their patents with a proviso against sub-licenses without their written consent. The Court of Appeals in reversing the Tax Court and holding the proceeds from the sale to be taxable as the sale of capital assets said:

“Actually, the agreement provides that Rikol will not grant sub-licenses under the patents mentioned therein, *unless it shall first receive the written consent of The Rollmans*. In addition, Rikol is given the right to grant sub-licenses to corporations controlled by Welleo. The authorities do not support the view that the grant of exclusive rights under a patent does not amount to a transfer of a capital asset if the assignee cannot grant a sub-license without the assignor's consent. Such a limitation does not interfere with the full use of the patent by the assignee and it serves to protect both parties to the assignment in case the

purchase price is paid in instalments. Moreover, the assignor retains no use of the patent for himself by reason of the limitation since he has granted the exclusive rights to the assignee and cannot grant a sub-license without the purchaser's consent. See *Allen v. Werner*, 190 F.2d 840 (40 AFTR 1182) (CA 5); *Watson v. United States*, 222 F.2d 689 (47 AFTR 925) (CA 10); *Platt v. Fire Extinguisher Mfg. Co.*, 59 Fed. 897 (CA 3); *Crook et al Exrs. v. United States et al.*, 135 F.Supp. 242 (48 AFTR 546); *First Nat'l Bank of Princeton Exr. v. United States*, 136 F.Supp. 818 (48 AFTR 1082); *Parke Davis Co. v. C.I.R.*, 31 BTA 427, 430; *General Spring Corp. v. C.I.R.*, 12 TCM 847."

Other cases have held that certain limitations on assignments or licensing did not preclude a sale. See: *Allen v. Werner*, (CA-5, 1951), 190 F. 2d 840, 40 AFTR 1182; *Thompson v. Johnson*, (DC-NY, 1950), 42 AFTR 1284; *Arras v. United States*, 164 F. Supp. 150, 1 AFTR (2d) 1865; *First National Bank of Princeton v. United States*, (DC-NJ, 1955), 136 F. Supp. 818, 48 AFTR 1082; *Lamar v. Granger*, (USDC WD-Pa., 1951), 99 F. Supp. 17, 40 AFTR 1246; *Merck & Company, Inc. v. United States*, (DC-Penn., 1957), 155 F. Supp. 843, 52 AFTR 799; *Crook v. United States*, (DC-Penn., 1955), 135 F. Supp. 242, 48 AFTR 546; *General Spring Corp.*, ¶53,257 P-H Memo T.C.

The Tax Court points out petitioner reserved the right to terminate the franchise upon the holder's failure to make required payments. (R. 159) The right to terminate the agreement for a nonpayment is set forth in paragraph 8 of the Territorial Assignment of Patent (R. 28-29), and is a condition subsequent. It is the type of condition subsequent that was found to be consistent with vestiture of title in the case of *Commissioner v. Celanese Corp. of America*, (CA-DC, 1944), 140 F. 2d 339, 32 AFTR 42. See also: *Allen v. Werner*, (CA-5, 1951), 190 F. (2d) 840, 40 AFTR 1182; *Edward C. Myers*, 6 T.C. 258; *Lamar v. Granger*, (US-DC WD Pa., 1951), 99 Fed. Supp. 17, 40 AFTR 1246.

The possibility of reverter to the assignor because of a condition subsequent does not prevent a transaction from being a sale with the gain therefrom entitled to the benefits of Section 117 treatment. See also: *Allen v. Werner*, (CA-5, 1951), 190 F. 2d 840, 40 AFTR 1182; *Watson v. United States*, (CA-10, 1955), 222 F. 2d 689, 47 AFTR 925; *Lawrence v. United States*, (CA-5, 1957), 242 F. 2d 542, 50 AFTR 2024; *Kronner v. United States*, 126 Ct. Cls. 156, 110 F. Supp. 730; *Carl G. Dreyman*, 11 T.C. 153; *Monie S. Hudson*, ¶56,060, P-H Memo T.C.

An examination of the Territorial Assignment of Patent (R. 24-33) and the district franchise (R. 34-41) and the so-called reserved rights listed by the Court (R. 157-160) show that all rights, powers and interests reserved are insubstantial to a full and complete enjoyment by the assignee to make, use and sell the Exact-O-Matic System in the specified territory. In *Lawrence v. United States*, (CA-5, 1957), 242 Fed. 2d 542, 50 AFTR 2024, the taxpayer was the inventor of a device for removing obstructions from oil wells. He granted the exclusive right to manufacture, use and *lease* this invention in the United States. The taxpayer received royalty interest in payment for the transfer. The District Court held that this created a license rather than a sale, and, therefore, the proceeds were ordinary income because the right to sell was not included in the agreement. The Fifth Circuit reversed the District Court on appeal and held that the right to sell under the facts in that case was not a substantial right and said:

“ * * * What is ‘substantial’ often becomes a factual question to be decided according to the facts and circumstances of each case and the peculiarities inherent in each patent.”

The foregoing shows that the particular matter which is the subject of the assignment must be given full consideration in determining whether “all of the substantial rights”

have been transferred to the assignee. The Tax Court in the instant case has ignored this principle. As previously pointed out, the Exact-O-Matic System is a tool of the accounting profession. Only professionally qualified accountants are suitable persons to use the system. The intent running throughout both the Territorial Assignment of Patent and the District Franchise was to see that the system did not fall into the hands of persons unqualified to use it. The intent was to protect the value of the system by maintaining high standards of skill and integrity in its overall operation. This provision was designed not only to protect the assignor but to protect other assignees who had purchased the right to use and sell the system in other territories. The Tax Court ignored the principle that "nature of the rights involved" must be given consideration in determining if "all the substantial rights" have been sold. This Court pointed out this rule in the case of *United States v. Carruthers*, (CA-9, 1955), 219 F. 2d 21, 46 AFTR 1626 as follows:

"Aside from the several cases which treat an assignment of patent rights to a limited area as a sale for tax purposes, and the cases which regard the transfer of a part interest in a patent as a sale for tax purposes, there are cases not in conformity with the Waterman test which hold that the transfer of patent interests should be treated as long-term capital gains. *Allen v. Werner*, 5 Cir., 190 F.2d 840, 842 is a case involving a 'license' which was terminable on 90 days notice and which could not be assigned except upon transfer of the entire business. In holding that the taxpayer-patentee should be granted a tax refund on the basis that the receipt of royalties on this transfer of patent rights should be treated as a long-term capital gain rather than ordinary income, the court made this general observation:

'The decisions consider the nature of the rights involved under a patent, and the interest of the assignor which require that proper effort to promote

manufacture and sale of the patented article be provided and enforceable.' ”

* * * * *

The Tax Court rests its conclusion that petitioner did not dispose of all of his substantial rights on the ground he retained, in the aggregate, too many rights. The only case cited by the Tax Court in support of this position is *Watkins v. United States*, (CA-2, 1958), 252 F. 2d 722, 1 AFTR 2d 997. The rights retained in the *Watkins* case clearly distinguish it from the case at bar. The rights reserved as listed in the opinion were:

“Among the rights remaining in or bestowed upon Watkins by the various agreements were: (1) a right to royalties; (2) the power of termination in event of failure of the transferee to obtain necessary loans to conduct patent litigation; (3) Watkins’ limited right to conduct patent litigation; (4) the restraint of non-transferability on the grant; (5) the fact that through the grant Watkins became a substantial shareholder in the transferee; (6) the reservation to Watkins of the license to manufacture and sell and to sublicense at reduced royalties and with a limited right of transferability; (7) Watkins’ right to approve all sub-licensees of the transferee.”

The rights retained by petitioner in the case at bar were no more substantial than those contained in other cases involving assignments that resulted in capital gains treatment. In *Watson v. United States*, (CA-10, 1955), 222 F(2d) 689, 47 AFTR 925 the agreement provided: (1) that the licensee should not assign the exclusive rights to the patent without the licensor’s written consent; (2) that the licensor would be free to license others to manufacture and sell the patented device should the licensee fail to make and sell 2,500 carts during a six-month period; (3) for payment of royalties; and (4) various provisions relating to suits for infringement.

In *Dairy Queen of Oklahoma, Inc. v. Commissioner*, (CA-10, 1957), 250 F(2d) 503, 52 AFTR 1092, reversing 26 T.C. 61, the Court held a sale occurred although many more rights were retained than in the case at bar. There a franchise agreement provided that the taxpayer would furnish freezers and a formula for an ice cream mix. Among the rights retained were the following:

1. The freezers remained the property of the assignor.
2. The assignee could only obtain ice cream mix from a source approved by assignor.
3. Assignee to furnish suitable location to be approved by assignor.
4. The store was to be of standard design and construction and the assignees agreed to maintain standards of quality regarding cones, cups, flavoring and miscellaneous supplies.
5. The assignee could sell no other product than Dairy Queen.
6. The assignor had the right to audit the records of the assignee.
7. The assignee could not sell a similar product for a period of five years in event of termination of the agreement.
8. The assignor had the right to enter and remove the freezer if licensee violated the agreement.
9. The assignee had to obtain prior approval of the assignor to transfer or assign the contract.

Notwithstanding these retained rights the Tenth Circuit in holding that the traditional test of ownership is the power to exclude others said:

“(5) The requirements of the franchise with respect to maintenance of quality; sanitary dispensing conditions; design of stores; right to audit the books;

approve source of 'mix'; and cancellation for violation of such requirements, were all intended to insure uniform standards for the trade name product sold statewide. So long as the grantee complied with these conditions subsequent, the grantor could not invade the grantee's exclusive right to make and sell the products in his designated territory. Each and all of these conditions were designed to protect and safeguard the respective rights of the parties. They were not intended to reserve to the grantor any property or proprietary right in the exclusive and perpetual franchise. Nor do we think the provisions with respect to the gallonage payments impair such exclusive right. Cf. *Watson v. United States*, supra."

See also: *Allen v. Werner*, (CA-5, 1951), 190 F.2d 840, 40 AFTR 1182; *Arras v. United States*, (D.C. Conn.; 1958), 164 F. Supp. 150, 1 AFTR 2d 1865.

The Tax Court held that Section 117(q) of the Internal Revenue Code of 1939 which was added by Act of Congress on June 29, 1956, c. 464, 70 Stat. 404, was not applicable because the section is limited to "patent rights" and because the transfers were not made with respect to "all substantial rights" in the Exact-O-Matic System. (R. 161) Under Section 117(q) the sale of "all substantial rights to a patent or an undivided interest therein which includes part of all such rights," by an inventor results in long-term capital gain or loss. This rule applies whether the inventor is an amateur or professional and whether the payments are in a lump sum or are periodic or contingent. The Amendment applies to receipts by an inventor in any taxable year beginning after May 31, 1950 regardless of the taxable year in which the sale or transfer occurred. The new section is substantially the same as Section 1235 of the Internal Revenue Code of 1954. The refusal of the Commissioner to follow the decision of the Tax Court in the case of *Myers v. Commissioner*, 6 T.C. 258, is the reason for the enactment of section 1235 of the Internal Revenue

Code of 1954 and Section 117(q) of the Internal Revenue Code of 1939. The cases listed below show that it is applicable to the case at bar. *Rollman v. Commissioner*, (CA-4, 1957), 244 F.2d 634, 51 AFTR 445; *Lawrence v. Commissioner*, (CA-5, 1957), 242 F.2d 542, 50 AFTR 2024; *Storm v. United States*, (CA-5, 1957), 243 F.2d 708, 51 AFTR 177; *F. H. Philbrick*, 27 T.C. 346 (1956). The legislative history of the section is reviewed in *F. H. Philbrick*, where it was stated:

“The meaning of the phrase ‘all substantial rights to a patent,’ used in said subsection (q), is explained in the report of the Senate Finance Committee on the cognate provisions of Section 1235 of the 1954 Code, as follows:

‘The section does not detail precisely what constitutes the formal components of a sale or exchange of patent rights beyond requiring that all substantial rights evidenced by the patent (other than the right to such periodic or contingent payments) should be transferred to the transferee for consideration. This requirement recognizes the basic criteria of a “sale or exchange” under existing law, with the exception noted relating to contingent payments, which exception is justified in the patent area for “holders” as herein defined. To illustrate, exclusive licenses to manufacture, use and sell for the life of the patent, are considered to be “sales or exchanges” because, in substantive effect, all “right, title, and interest” in the patent property is transferred (irrespective of the location of legal title or other formalities of language contained in the license agreement). Moreover, the courts have recognized that an exclusive license agreement in some instances may constitute a sale for tax purposes even where the right to “use” the invention has not been conveyed to the licensee, if it is shown that such failure did not represent the retention of a substantial right under the patent by the licensor. It is the intention of your committee to continue this realistic test, whereby the entire transaction, regardless of formalities, should be ex-

amined in its factual context to determine whether or not substantially all rights of the owner in the patent property have been released to the transferee, rather than recognizing less relevant verbal touchstones. The word "title" is not employed because the retention of bare legal title in a transaction involving an exclusive license may not represent the retention of a substantial right in the patent property by the transferor. Furthermore, retention by the transferor of rights in the property which are not of the nature of rights evidenced by the patent and which are not inconsistent with the passage of ownership, such as a security interest (e.g., a vendor's lien) or a reservation in the nature of a condition subsequent (e.g., a forfeiture on account of nonperformance) are not to be considered as such a retention as will defeat the applicability of this section. On the other hand, a transfer terminable at will by the transferor would not qualify.'

"The phrase 'rights to a patent,' appearing in said subsection (q), appears also in section 1235 of the 1954 Code. The reports of the Senate Finance Committee and of the Conference Committee on this latter section indicate that such phrase was substituted, in lieu of a previously suggested phrase reading 'rights evidenced by a patent,' in order to make clear that the section applied, even though the patent itself might not have been issued at the time of the transfer, and even though an application for the patent might not then have been made."

Under the Territorial Assignment of Patent, the assignee is given the right to license others to use the Exact-O-Matic System. This has been held to be evidence that there was a sale. See: *Monie S. Hudson*, ¶ 56,060 P-H Memo. T.C.; *Pike v. United States*, (DC-Conn., 1951), 101 F. Supp. 100, 41 AFTR 501. In addition, the Territorial Assignment of Patent in paragraph 13 shows the intent of the parties to be that the assignee is "the territorial owner of the patent, operating completely independent of the assignor." In view of this language in

the agreement, it is difficult to understand how it can be contended that the territorial assignee did not receive all of petitioner's right, title, and interest in the Exact-O-Matic System within the designated territory. The foregoing authorities lead to the inescapable conclusion that the Territorial Assignments of the Exact-O-Matic System in the instant case constituted a sale within the meaning of Section 117 of the Internal Revenue Code, and that the proceeds are taxable as capital gains rather than as ordinary income.

CONCLUSION

For the reasons stated above, the decision of the Tax Court should be reversed.

Respectfully submitted,

ROBERT ASH
CARL F. BAUERSFELD
1921 Eye Street, N. W.
Washington 6, D. C.

Attorneys for Petitioners

May 21, 1959

APPENDIX
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**In the United States Court of Appeals
for the Ninth Circuit**

**JOE L. SCHMITT, JR., AND HELEN M. SCHMITT,
PETITIONERS**

v.

COMMISSIONER OF INTERNAL REVENUE, RESPONDENT

**On Petition for Review of the Decision of the
Tax Court of the United States**

BRIEF FOR THE RESPONDENT

CHARLES K. RICE,
Assistant Attorney General.

**LEE A. JACKSON,
ROBERT N. ANDERSON,
GEORGE W. BEATTY,**
*Attorneys,
Department of Justice,
Washington 25, D. C.*

FILED

JUN 19 1959



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The Tax Court properly determined that the pay- ments taxpayer received for transferring certain patent rights were taxable as ordinary income rather than as capital gain, because taxpayer did not sell the patents within the meaning of Sec- tion 117(a) (4) of the Internal Revenue Code of 1939 or transfer "all substantial rights" to the patents within the meaning of Section 117(q) of the Code.....	15
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**In the United States Court of Appeals
for the Ninth Circuit**

No. 16341

**JOE L. SCHMITT, JR., AND HELEN M. SCHMITT,
PETITIONERS**

v.

COMMISSIONER OF INTERNAL REVENUE, RESPONDENT

**On Petition for Review of the Decision of the
Tax Court of the United States**

BRIEF FOR THE RESPONDENT

OPINION BELOW

The findings of fact and opinion of the Tax Court (R. 137-162) are reported in 30 T.C. 322.

JURISDICTION

This petition for review (R. 164-168) involves federal income taxes for the taxable years 1949-1951. On September 2, 1955, the Commissioner of Internal Revenue mailed to the taxpayers a notice of deficiency in the total amount of \$12,032.56. (R. 9-19.) Within ninety days thereafter and on November 25,

1955, the taxpayers¹ filed a petition with the Tax Court for a redetermination of that deficiency under the provisions of Section 6213 of the Internal Revenue Code of 1954. (R. 3-19.) The decision of the Tax Court redetermining a deficiency in the total amount of \$5,579.98 was entered on August 4, 1958. (R. 163.) The case is brought to this Court by a petition for review filed on October 24, 1958. (R. 168.) Jurisdiction is conferred on this Court by Section 7482 of the Internal Revenue Code of 1954.

QUESTION PRESENTED

Whether the Tax Court properly determined that the taxpayer did not transfer all substantial rights to certain patents, with the result that the payments he received in the transactions here involved are taxable as ordinary income rather than as capital gain.

STATUTE INVOLVED

The statute involved is set out in the Appendix, *infra*.

STATEMENT

The Tax Court's findings (R. 137-152), including certain stipulated facts (R. 21-48), may be summarized as follows:

Taxpayer and his wife filed joint income tax returns for the years 1949-1951 with the Collector of Internal Revenue at Phoenix, Arizona. (R. 137.)

¹ As used hereinafter, the term "taxpayer" refers to Joe L. Schmitt, Jr. His wife is a party to this action only because joint returns were filed for the years in question.

Since 1925 taxpayer has been engaged in accounting work in and around the city of Phoenix. In the course of his work he developed a procedure which converted single entry bookkeeping records into double entry records through the use of tabulating cards and certain machines manufactured by Remington Rand, Inc. These machines were adapted to taxpayer's needs by adding a special wiring unit which taxpayer invented and Remington Rand manufactured. The procedure developed by taxpayer has not been changed since 1947. (R. 137-138.)

Taxpayer named his procedure the "Exact-O-Matic System". During the years 1946-1949, he obtained copyrights on three different pamphlets which he had written in connection with the Exact-O-Matic System, and in 1950 he applied to the Patent Office for the registration of two service marks and designs relating to the system. These were registered in December, 1951. In the years 1948, 1949 and 1952, taxpayer also applied for three patents covering his invention. (R. 138.) Taxpayer has never applied for a copyright, trademark or patent except in connection with the Exact-O-Matic System. (R. 150.)

Taxpayer did not solicit sales of the Exact-O-Matic System, but Remington Rand publicized the system for him, and during the years 1949, 1950 and 1951, taxpayer entered into eleven substantially similar agreements whereby he transferred certain rights to territorial franchise holders called assignees. (R. 139.) The full text of one of these "Territorial Assignments" is contained in the stipulation of facts

(R. 22, 24-33), and the relevant provisions may be summarized as follows:

1. In return for consideration received, the taxpayer, as assignor, covenanted that he was "the owner of the entire right, title and interest in and to those certain United States Patents, Patents Pending, Registrations and Copyrights hereinafter referred to as 'Exact-O-Matic System'." (R. 24.)

2. The assignor granted to the assignee "the exclusive right, privilege and franchise to use and sell the said Exact-O-Matic System" throughout a described "Territorial area" during the entire term of the patents, "subject, however, to the conditions and covenants hereinafter set forth." (R. 24-25.)²

3. The assignee agreed to use his "best efforts to establish and/or sell" district franchises by dividing the territorial area into districts, and by granting licenses to operate the Exact-O-Matic System in those districts. The assignee was required to establish one district within thirty days to be managed by either the assignee or a corporation controlled by the assignee. Within a year, the assignee was obligated to "establish or sell a second District License, and every six months thereafter one additional District License, until a total of three District Licenses have been sold." Any sale of a district license was "sub-

² The described "Territorial area" generally consisted of a single state. (R. 140.) For purposes of the agreement the term "Patent" was defined to mean "Patents, Patents pending, Registrations, Copyrights, and any oral or written agreement" made at anytime between the assignor and Remington Rand, Inc. "relating to double entry machine book-keeping methods, procedures, and processes." (R. 25.)

ject to approval of the Assignor, insofar as the competency and financial ability and integrity of the franchise applicant is concerned." (R. 25-26.)³

4. The assignee agreed to use a specified contract form in granting district licenses, unless the assignor and assignee mutually agreed on a different form of contract.⁴ The above provisions of paragraph three and this paragraph were "for the protection of all other Territorial Assignees and to further insure an adequate sale price to the Assignor." (R. 26-27.)

5. The assignee had the right to fix prices for the sale of all licenses within his territory, and to fix the price for the Exact-O-Matic services to be rendered by the district licensees, with the qualification that the assignee could not sell a district license for less than \$3,000 without the "approval of Assignor".⁵ (R. 27.)

6. The assignee agreed to collect the sales price of all district licenses, and all royalties for the use of the Exact-O-Matic System, within the territorial area. The assignee further agreed to pay to the assignor "as his share of the business transacted within the territory":

(a) 60 per cent "of the sales price of each District License", and

³ The agreement also referred to the sale of "Unit A" and "Unit B" licenses which could be granted to single companies, or to an accountant with a fixed number of customers, respectively. No such licenses were ever issued. (R. 146.)

⁴ A sample licensing agreement is included in the stipulation of facts. (R. 22, 34-42.)

⁵ This restriction did not apply to the sale of an initial district license to a corporation controlled by the assignee.

(b) 50 per cent "of the gross royalties collected from" the territorial area, "which royalties shall not be less than ten per cent (10%) of the gross fees charged by licensees for service under said license."

The assignee agreed to pay these amounts monthly, to provide a detailed report of all receipts, to list all orders for new business within the territorial area, and to give the assignor access to assignee's books and records at all reasonable times for audit and examination. (R. 27-28.)

7. The assignee agreed to use his "best efforts and ability to promote and preserve the said business" in the territorial area, and to maintain "a uniform type of service in conformity with the standard practice and in the manner prescribed by the methods, procedures, and processes of Exact-O-Matic System." (R. 28.)

8. If the assignee failed to make the payments described in paragraph six within thirty days after they were due, the assignor had the right to terminate the agreement on thirty days' notice if the amounts due remained unpaid at the end of that period. On termination of the agreement, the assignee's interest in licenses granted to third parties would pass to the assignor and such licensees would not be terminated. (R. 28-29.)

9. The assignor agreed to arrange, without any further charge, a course of instruction for all personnel of the assignee who would be required to use the Exact-O-Matic System under the assignee's initial district license. The assignee agreed to give at least

thirty days training to the personnel who would operate the Exact-O-Matic System under all subsequent district licenses. (R. 29-30.)

10. Assignor agreed to use his best efforts with manufacturers of necessary equipment to procure the equipment for use by the assignee and licensees, within three months of the date when Remington Rand accepted the order for such equipment. (R. 30.)

11. Assignor agreed to furnish the assignee and licensees with all sample forms for use under the Exact-O-Matic System, together with a complete manual of instructions. (R. 31.)

12. Assignor agreed "to defend at his own expense any litigation arising within or without the territorial area challenging his right to use any of the aforesaid patents to the end that all rights secured to Assignee herein may be preserved." (R. 31.)

13. Assignee had the right to select his own personnel, and with the exception of the training period described in paragraph nine, assignee was to have complete dominion and control over his employees, "it being the intent and purpose of this paragraph to evidence the fact that Assignee is the territorial owner of the patent, operating completely independent[ly] of Assignor." Licensees were to have similar dominion and control over their employees. The assignee and licensees were to pay all taxes levied or assessed against them by reason of the operation of the licenses. (R. 31.)

14. The assignee had the right to grant licenses for the full term of the agreement subject to the requirements of paragraph three. (R. 31-32.)

15. The assignee agreed "not to assign or dispose of this Territorial Assignment in whole or in part without the written consent of Assignor." (R. 32.)

16. The agreement stated that time was of the essence. (R. 32.)

17. The agreement was binding on the parties' successors in interest. (R. 32.)

As previously indicated, taxpayer entered into eleven different agreements of this type during the years 1949-1951. (R. 139.) In December of 1949 taxpayer entered into an additional agreement with the Exact-O-Matic Corporation, an Arizona corporation which had 40 shares of outstanding stock. Taxpayer, his wife and a person named Weaver had always owned one share each, and in November of 1949, 37 additional shares had been issued to new stockholders, none of whom was a member of taxpayer's family. (R. 146.) The full text of the agreement between taxpayer and the corporation is contained in the stipulation of facts (R. 23, 44-48), and the relevant provisions may be summarized as follows:

1. Paragraph one states in full that the "Party of the First Part [taxpayer] is the sole owner of the entire right, title and interest in and to those certain United States Patents, Patents pending, Registrations and Copyrights referred to under that certain trade name 'Exact-O-Matic System', and that he has not mortgaged, pledged, hypothecated, or otherwise encumbered the same, or any right, title, or interest therein in any manner whatsoever." (R. 44.)

2. Subject to certain conditions hereinafter set forth, and subject further to the provisions contained in the territorial and district "franchises issued or to be issued", taxpayer granted to the corporation "the exclusive right, privilege and franchise" to use the Exact-O-Matic name, to promote the sale of territorial franchises anywhere in the world, "and to supervise the operation of said Territorial franchises already established or to be established." (R. 44-45.)

3. The corporation agreed to sell at least five territorial franchises in the United States each year until there was a franchise in each state, provided that tabulating equipment was available. (R. 45.)

4. The corporation agreed "to use its best efforts in the supervision of those Territorial franchises already established and those territorial franchises to be established". (R. 45.)

5. The corporation agreed to undertake the course of instruction which taxpayer was obligated to give under the territorial franchises. (R. 45-46.)

6. If the corporation failed to comply with the terms and provisions of the agreement, taxpayer could terminate the agreement by giving thirty days' notice. (R. 46.)

7. Taxpayer agreed to pay the corporation a specified percentage of the sales proceeds and royalties which taxpayer received from territorial franchise holders. (R. 46-47.)

8. The corporation agreed not to assign, dispose of or encumber the agreement or future proceeds from the agreement in whole or in part without first obtaining taxpayer's written consent. (R. 47.)

9. Time was of the essence. (R. 47.)

10. The agreement was binding on the parties' successors in interest. (R. 47-48.)

Taxpayer was an officer of the corporation, but he received neither salary nor royalties from the corporation, and because he was occupied with his own clients, he did not aid the corporation in furnishing Exact-O-Matic service to its clients. (R. 149.) During the year 1949, taxpayer personally trained the employees of the territorial franchise holders, but in 1950 and 1951, the corporation provided this training. (R. 151-152.)

On May 3, 1951 Remington Rand, Inc., wrote a letter to taxpayer stating that the company would not knowingly manufacture, lease or sell the wiring unit designed by taxpayer "except for franchise holders of Exactomatic Systems of Joe L. Schmitt, Jr." (R. 149-150.) Remington Rand charged taxpayer \$260 for each wiring unit manufactured for the Exact-O-Matic System. This was so whether the machine containing the wiring unit was rented or sold by Remington Rand. In the event it was rented, the wiring unit would be returned to Remington Rand with the machine at the termination of the lease. Such wiring unit belonged to taxpayer, and if the machine, together with the unit, were subsequently rented, no further charge was made by Remington Rand to taxpayer for the unit. (R. 150.)

As consideration for making the eleven territorial assignments previously described, taxpayer received

the following net amounts⁶ during the years in question (R. 150-151):

1949	\$ 7,962.02
1950	36,992.00
1951	10,997.00

In addition, taxpayer received the following net amounts under paragraph 6(a) of the territorial assignments (R. 151):

1949	\$ 0.00
1950	7,498.00
1951	1,799.00

Finally, taxpayer received an undisclosed amount of royalties under paragraph 6(b) of the territorial assignments. These royalties were reported as ordinary income, but taxpayer reported the remainder of the above-mentioned net amounts as capital gain. (R. 151.) The Commissioner determined that the latter amounts were ordinary income and the Tax Court sustained this determination. (R. 153-161.)

SUMMARY OF ARGUMENT

Taxpayer invented a mechanical method of translating single entry bookkeeping records into double entry records, and he registered the entire process under the trade name "Exact-O-Matic System."

⁶ "Net amounts" as here used means total amounts received less certain uncontested offsets. (R. 151.) In his deficiency notice the Commissioner disallowed certain other claimed deductions (R. 152), but the Tax Court sustained the deductions (R. 161-162), and they are no longer in issue here.

After filing patent applications for his invention, he transferred certain rights to territorial franchise holders who were authorized to use the system and were obligated to issue district licenses within their territorial area. In return, taxpayer received lump sum payments from the franchise holders, a share of all amounts paid for district licenses, and royalties based on a percentage of the gross fees charged by licensees for service in each territorial area. The royalties were reported as ordinary income and are not involved in this proceeding. The issue here is whether the remaining proceeds which taxpayer received were taxable as ordinary income or as capital gain, and we submit that the Tax Court was clearly correct in deciding that the amounts involved were taxable at ordinary income rates.

In statutory terms, the issue with respect to the taxable years 1949 and 1950 is whether there was a "sale" of the Exact-O-Matic System within the meaning of Section 117(a)(4) of the Internal Revenue Code of 1939. As to the taxable year 1951, the statutory question is whether taxpayer transferred "all substantial rights" to the system within the meaning of Section 117(q) of the Code. It is clear that if taxpayer failed to transfer "all substantial rights" within the meaning of Section 117(q), he also failed to effect a "sale" under Section 117(a)(4), with the result that all of the proceeds are taxable as ordinary income.

The record here presented clearly sustains the Tax Court's determination that taxpayer did not transfer "all substantial rights" to the Exact-O-Matic System

within each territorial area. It is axiomatic that a patent carries with it the rights to make, use and sell the invention, but instead of transferring all of these rights in the case at bar, taxpayer actually transferred only the right to use the system. The special wiring unit which was essential to the operation of the system was manufactured at taxpayer's direction, and it remained taxpayer's property. Furthermore, no territorial franchise holder or district licensee could sell or otherwise dispose of his interest in the use of the system without first obtaining taxpayer's written consent. This unrestricted control over the sale or other disposition of the system obviously constitutes the retention of a substantial right by the taxpayer, and is wholly inconsistent with the claim that all substantial rights to the system were transferred to the franchise holders.

Actually, as we have stated previously, what the franchise holders received was simply a license to use the system in a described territorial area, and even this right of use was subject to limitations. In particular, the franchise holders were obligated to sell a certain number of district licenses within a specified time on terms laid down by the taxpayer, and they were also required to furnish an essential course of training for the licensees' personnel. In addition, they were required to furnish taxpayer with a report on all new business in the area when they made payments to the taxpayer at regular monthly intervals. Finally, the franchise holders were under a general obligation to use their best efforts "to promote and preserve the said business of

each District". Had they failed to uphold any of the covenants which were basic to the development of taxpayer's system, taxpayer would have been entitled as a matter of contract law to terminate the franchise agreements.

Furthermore, the franchise agreements provided that taxpayer would defend any infringement suits at his own expense, and this reserved right, coupled with the obligation to pay the costs of litigation, is again indicative of the fact that taxpayer had not transferred all substantial rights to the System to the franchise holders. Indeed, after taxpayer had entered into some of the franchise agreements here involved, he entered into another contract with the Exact-O-Matic Corporation which was prefaced with the unequivocal declaration that taxpayer was still "the sole owner" of the "entire" Exact-O-Matic System.

Considered collectively, these factors clearly sustain the lower court's factual determination that taxpayer did not transfer all substantial rights to the system in each territorial area, and is therefore not entitled to treat the proceeds as capital gain. Each case in this area necessarily rests on its own facts, and where the record warrants the ultimate conclusion reached by the lower court, as it does here, the decision below is entitled to stand and should be affirmed.

ARGUMENT

The Tax Court Properly Determined That the Payments Taxpayer Received for Transferring Certain Patent Rights Were Taxable As Ordinary Income Rather Than As Capital Gain, Because Taxpayer Did Not Sell the Patents Within the Meaning of Section 117(a)(4) of the Internal Revenue Code of 1939 or Transfer "All Substantial Rights" to the Patents Within the Meaning of Section 117(q) of the Code

Taxpayer developed a procedure for converting single entry bookkeeping records into double entry records through the use of tabulating machines equipped with a special wiring unit which taxpayer invented. Taxpayer applied for three patents covering his invention and he registered the entire procedure under the trade name "Exact-O-Matic System". Thereafter he transferred certain rights with respect to the system to territorial franchise holders who agreed to issue district licenses within their territorial area. In return, taxpayer received a lump sum payment from each of the franchise holders, a share of the amounts paid for the various district licenses, and royalties based on a percentage of the gross fees charged by licensees for service in each territorial area. Taxpayer reported the royalties as ordinary income, and the taxation of these payments is not in issue here. The remaining payments which taxpayer received during the years 1949-1951 were reported as capital gain, and the ultimate issue here is whether these amounts were properly reported as capital gain, or were taxable as ordinary income. The Tax Court held (R. 153-161) that the amounts in question were taxable as ordinary income because

taxpayer had not transferred all substantial rights to the Exact-O-Matic System, and we submit that on the particular facts here involved, the court below was fully warranted in reaching this conclusion.

With respect to the proceeds which taxpayer received in the years 1949 and 1950, the statutory question is whether there was a "sale or exchange" of the Exact-O-Matic System within the meaning of Section 117(a)(4) of the Internal Revenue Code of 1939 (Appendix, *infra*). With respect to the year 1951, the issue in statutory terms is whether taxpayer transferred "all substantial rights" to the system within the meaning of Section 117(q) of the Code (Appendix, *infra*) which governs the taxation of proceeds received in taxable years beginning after May 31, 1950.⁷ While Section 117(q) eliminates some of the requirements for capital gain treatment which existed under Section 117(a)(4), Congress did not intend to change the basic requirement that there be a "sale or exchange" of the property. The Senate Committee Report with respect to the provisions appearing in Section 117(q) states:⁸

⁷ For purposes of this case it is immaterial that the transfers occurred before taxpayer had obtained a patent on his invention (see R. 78-79, 138), because Section 117 can apply where an inventor sells his interest in the invention either before or after obtaining a patent. *Speicher v. Commissioner*, 28 T.C. 938. See *Philbrick v. Commissioner*, 27 T.C. 346, 356.

⁸ S. Rep. No. 1622, 83d Cong., 2d Sess., pp. 439-440 (3 U.S.C. Cong. & Adm. News (1954) 4621, 5081, 5083). This report was actually issued in connection with Section 1235 of the 1954 Code, but it is relevant here since Section 117(q)

The section does not detail precisely what constitutes the formal components of a sale or exchange of patent rights beyond requiring that all substantial rights evidenced by the patent (other than the right to such periodic or contingent payments) should be transferred to the transferee for consideration. This requirement recognizes the basic criteria of a "sale or exchange" under existing law, with the exception noted relating to contingent payments * * *. To illustrate, exclusive licenses to manufacture, use, and sell for the life of the patent, are considered to be "sales or exchanges" because, in substantive effect, all "right, title, and interest" in the patent property is transferred (irrespective of the location of legal title or other formalities of language contained in the license agreement). Moreover, the courts have recognized that an exclusive license agreement in some instances may constitute a sale for tax purposes even where the right to "use" the invention has not been conveyed to the licensee, if it is shown that such failure did not represent the retention of a substantial right under the patent by the licensor. It is the intention of your committee to continue this realistic test, whereby the entire transaction, regardless of formalities, should be examined in its factual context to determine whether or not substantially all rights of the owner in the patent property have been released to the transferee, rather than recognizing less relevant verbal touchstones. The word "title"

was enacted in 1956, after the adoption of Section 1235, for the purpose of making the provisions of Section 1235 retroactive to 1950. S. Rep. No. 1941, 84th Cong., 2d Sess., p. 5 (1956-2 Cum. Bull. 1227, 1229).

is not employed because the retention of bare legal title in a transaction involving an exclusive license may not represent the retention of a substantial right in the patent property by the transferor.

Thus the requirement that "all substantial rights" be transferred is really a continuation of the former requirement that there be a "sale or exchange" of the property; and under both Section 117(a)(4) and Section 117(q), "the entire transaction, regardless of formalities, should be examined in its factual context to determine whether or not substantially all rights of the owner in the patent property have been released to the transferee".

On the record here presented, the Tax Court was clearly warranted in finding that taxpayer did not transfer "all substantial rights" to the Exact-O-Matic System. It is axiomatic that a patent carries with it the exclusive right to make, use and sell the invention. See *Waterman v. Mackenzie*, 138 U.S. 252; *Broderick v. Neale*, 201 F. 2d 621 (C.A. 10th); *United States v. Carruthers*, 219 F. 2d 21 (C.A. 9th). However, instead of transferring all of those rights with respect to the Exact-O-Matic System, taxpayer actually transferred only the right to use the system. The wiring unit which was essential to the operation of the system was manufactured at taxpayer's direction, and it remained taxpayer's property. (R. 66-67, 121-122, 150.) Furthermore, taxpayer retained a veto power which made it impossible for any transferee to sell or dispose of his interest in the use of the Exact-O-Matic System without taxpayer's

written consent. (R. 32, 38, 157, 158.) See *Watkins v. United States*, 252 F. 2d 722, 725 (C.A. 2d). In other words, taxpayer's assertion (Br. 10) that he transferred the right "to make, use and sell" the system is simply not true, because the transferees had no control over the manufacture of the vital wiring unit, and they had no power to sell their interest in the use of the system unless taxpayer consented. Actually, as we have previously stated, what they received from taxpayer was simply a license to use the system, and even this right was subject to numerous limitations.

The contracts which gave the territorial franchise holders authority to use the Exact-O-Matic System were expressly made subject "to the conditions and covenants hereinafter set forth". (R. 25.) In particular, the franchise holders agreed to sell a certain number of district licenses within a specified time on terms laid down by the taxpayer. (R. 25-27, 32.) They also agreed to furnish an essential course of training for the licensees' personnel (R. 30), and finally, they agreed to use their best efforts "to promote and preserve the said business of each District" (R. 28). Had the franchise holders failed to uphold any of these covenants, which were basic to the development of taxpayer's system, taxpayer would have been entitled as a matter of contract law to rescind the entire agreement. See, e.g., *Oscar Barnett Foundry Co. v. Crowe*, 219 Fed. 450, 455 (C.A. 3d); *Ruby v. Ebsary Gypsum Co.*, 36 F. 2d 244, 246 (W.D. N.Y.). In addition, it was expressly provided that taxpayer could terminate the agreement on thirty

days' notice if the franchise holder failed to pay over a specified share of all proceeds from the sale of district licenses and all fees collected from customers throughout the territorial area. (R. 28-29.) See *Six Wheel Corp. v. Sterling Motor Truck Co.*, 50 F. 2d 568, 573 (C.A. 9th). In short, the territorial franchise holders had the right to use the System only so long as they complied with taxpayer's requirements concerning further development of the business and prompt payment of the proceeds.

The various factors discussed thus far would, in themselves, sustain the Tax Court's decision that the transfer from taxpayer to each of the franchise holders was a license, rather than an assignment of all substantial rights in the Exact-O-Matic System. In *Bailey v. Commissioner*, decided October 10, 1950 (1950 P-H T.C. Memorandum Decisions, par. 50-237, affirmed, 188 F. 2d 360 (C.A. 3d), the taxpayer granted to an independent company, much more broadly than is the situation in the instant case, the sole and exclusive right "to make, use and sell" certain inventions. However, the company was required to obtain the taxpayer's written consent before assigning any of the transferred rights, and the agreement could be terminated on sixty days' notice if the company failed to develop taxpayer's designs or conducted the business improperly. Basing its decision on the fact that the taxpayer had reserved these rights, the Tax Court concluded that the transaction was in reality a license, rather than an assignment or "sale" of the taxpayer's interest in the patented property. The Tax Court reached this conclusion, and the

Court of Appeals affirmed, even though the agreement provided that the company would prosecute or defend any infringement suits at its own expense.

Here, the evidence indicative of a license is even stronger, because in addition to the transfer being limited to the mere use of the system, and in addition to the taxpayer retaining an absolute veto power over future transfers and a right to terminate the agreement for breach of certain covenants, taxpayer also retained the right to defend all patent infringement suits and agreed to pay the costs of such litigation. The retention of such a right, coupled with the obligation to pay the costs of litigation, is clearly persuasive evidence that the transferor has retained a substantial proprietary interest in the transferred property. *Watkins v. United States*, 252 F. 2d 722, 725 (C.A. 2d); *Switzer v. Commissioner*, 226 F. 2d 329, 331 (C.A. 6th). See also *E. W. Bliss Co. v. United States*, 253 U. S. 187, 192-193. Indeed, the franchise contracts in the case at bar make it unequivocally clear that taxpayer retained such an interest. Taxpayer agreed (R. 31) "to defend at his own expense any litigation arising within or without the territorial area challenging *his right* to use any of the aforesaid patents to the end that all rights secured to Assignee herein may be preserved." (Emphasis added.) See *Switzer v. Commissioner*, 226 F. 2d 329, 330 (C.A. 6th).

Taxpayer's assertion (Br. 9-10) that he transferred "all substantial rights" to the Exact-O-Matic System within the areas covered by the territorial assignments is inconsistent not only with the above facts,

but also with the provisions of the related contract which taxpayer entered into with the Exact-O-Matic Corporation in December, 1949. (R. 95-96, 146.) In two different paragraphs of that contract, there is an express reference to the territorial franchises "already established or to be established." (R. 45.) Yet, the opening paragraph of the contract with the corporation (R. 44) states that taxpayer "*is the sole owner* of the *entire* right, title and interest in and to those certain United States Patents, Patents pending, Registrations and Copyrights referred to under that certain trade name 'Exact-O-Matic System' * * *." (Emphasis added.) Manifestly, taxpayer could not and would not have made this unequivocal declaration if the prior territorial franchise agreements had been intended to divest him of his ownership rights in the Exact-O-Matic System. In effect, the corporate contract represents taxpayer's *own* statement that he was "the sole owner" of the "entire" Exact-O-Matic System, notwithstanding the agreements which he had previously made with territorial franchise holders. The conclusion is inescapable that the franchise agreements were simply licenses, not an assignment of taxpayer's ownership interest. *Eterpen Financiera Sociedad v. United States*, 108 F. Supp. 100, 104-105 (C. Cls.), certiorari denied, 346 U.S. 813.

In the *Eterpen* case, the taxpayer entered into an agreement with two different companies granting them the exclusive right "to make, use and sell" certain devices during the full life of the taxpayer's patents, subject to certain conditions. The taxpayer contended that this so-called license agreement act-

ually constituted an assignment or "sale" of the patents for tax purposes. In rejecting this contention, the Court of Claims relied primarily on the terms of an option agreement which the taxpayer had executed at the same time as the licensing agreement. The court stated (pp. 104-105):

When these two instruments are considered together, they negative in clear and unmistakable terms the contention by the taxpayer that it intended to effect a sale of the patents by means of the license agreement alone. In the option agreement the taxpayer expressly warranted that it was "sole and exclusive owner of the entire right, title, and interest in and to all of the patents," and that it had "the full right and power to assign and transfer the same." But if the taxpayer's present theory with respect to the license agreement were adopted, these words in the option agreement become meaningless, and the option agreement itself worthless because the taxpayer would have had nothing left to convey to Eversharp upon the exercise of the option on December 1, 1946. It is highly improbable and illogical that such a result was intended by the taxpayer when these agreements were drafted.

Precisely the same reasoning is applicable in the case at bar, because taxpayer's contract with the Exact-O-Matic corporation would have been meaningless if taxpayer had already surrendered all of his substantial rights to the system in the areas where territorial franchises had been issued.

After making a careful analysis of the territorial franchise agreements and the contracts which the

franchise holders were required to use in granting district licenses the court below concluded that the rights retained by taxpayer and the limitations imposed on the transferees were incompatible with the contention that all substantial rights to the Exact-O-Matic System had been surrendered by the taxpayer within the area of the territorial franchises. (R. 156-160.) The limitations on the transferees are listed in detail in the court's opinion (R. 157-159) and the interests retained by the taxpayer have already been discussed at length. To summarize, taxpayer retained ownership of the wiring unit which was essential to the operation of the system; he retained the power to veto any proposed sale or other disposition of the interest held by the franchise holders and the district licensees; he could terminate the territorial franchise agreements for breach of certain covenants relating to future development of the business and the payment of royalties; he could defend "his right" to use the patents and was obligated to pay for the defense of all infringement suits; and after some of the franchises in question had already been created, taxpayer entered into another contract on the premise that he was still "the sole owner" of the "entire" Exact-O-Matic System. Considered collectively, these factors clearly sustain the Tax Court's decision that taxpayer did not dispose of all substantial rights to the Exact-O-Matic System in each territorial area. *Watkins v. United States*, 252 F. 2d 722, 725 (C.A. 2d); *Bailey v. Commissioner*, decided October 10, 1950 (1950 P-H T.C. Memorandum Decisions, par. 50,237), affirmed, 188 F. 2d 360 (C.A. 3d); *Switzer v. Commissioner*,

226 F. 2d 329 (C.A. 6th); *Eterpen Financiera Sociedad v. United States*, 108 F. Supp. 100, 104-105 (C. Cls.), certiorari denied, 346 U.S. 813; *Broderick v. Neale*, 201 F. 2d 621 (C.A. 10th). See also *Six Wheel Corp. v. Sterling Motor Truck Co.*, 50 F. 2d 568, 572-573 (C.A. 9th).

Taxpayer seeks to minimize the rights he reserved by contending (Br. 11-15) that they were designed "to protect the value of the system" (Br. 11) and "to see that the system did not fall into the hands of persons unqualified to use it" (Br. 15). However, it makes no difference why taxpayer retained certain rights, because the controlling fact is that he *did* retain them, and having chosen to do so, he is subject to the ordinary income tax rates which apply where a patent owner makes a transfer without surrendering all substantial rights in the property. (See R. 161.) Indeed, taxpayer recognized that part of the income he derived from the franchise agreements was taxable at ordinary income rates when he reported his royalty payments as ordinary income. See *Switzer v. Commissioner*, 226 F. 2d 329, 333 (C.A. 6th). At no point during these proceedings has he suggested that this was incorrect, or offered any reason for treating the lump sum payments differently, and we submit that the lump sum payments stand on the same footing tax-wise as the continuing royalty payments, and are likewise taxable as ordinary income.

Each case in this area necessarily turns on its own facts and in view of the variations in the evidentiary content of such cases, differences of result are not only inevitable, but appropriate. Taxpayer has cited

a number of cases (Br. 11-20) where the presence of one or more of the factors here involved did not preclude capital gain treatment, but taxpayer has cited no case, and we know of none, where preferential capital gain treatment was accorded in a situation involving a combination of all of the important factors present here. In deciding this case, the court below rested its decision not on any one factor, but on (R. 160-161) "all of the rights, powers, and continuing interests reserved by petitioner, taken in combination", and we submit that the conclusion which the court reached on the particular facts of this case, considered in their totality, is correct and entitled to stand. See *Watkins v. United States*, 149 F. Supp. 718 (Conn.), affirmed, 252 F. 2d 722 (C.A. 2d). Cf. *Stockton Harbor Indus. Co. v. Commissioner*, 216 F. 2d 638, 640, 650-651, 656 (C.A. 9th), certiorari denied, 349 U.S. 904.

CONCLUSION

The decision below is correct and should be affirmed.

Respectfully submitted,

CHARLES K. RICE,
Assistant Attorney General.

LEE A. JACKSON,
ROBERT N. ANDERSON,
GEORGE W. BEATTY,
Attorneys,
Department of Justice,
Washington 25, D. C.

JUNE, 1959

APPENDIX

Internal Revenue Code of 1939:

SEC. 117. CAPITAL GAINS AND LOSSES.

(a) *Definitions.*—As used in this chapter—

(1) *Capital assets.*—The term “capital assets” means property held by the taxpayer (whether or not connected with his trade or business) * * *

* * * *

(4) [As amended by Sec. 150(a)(1) of the Revenue Act of 1942, c. 619, 56 Stat. 798] *Long-term capital gain.*—The term “long-term capital gain” means gain from the sale or exchange of a capital asset held for more than 6 months, if and to the extent such gain is taken into account in computing net income;

* * * *

(q) [As added by Sec. 1 of the Act of June 29, 1956, c. 464, 70 Stat. 404] *Transfer of Patent Rights.*—

(1) *General rule.* — A transfer (other than by gift, inheritance, or devise) of property consisting of all substantial rights to a patent, or an undivided interest therein which includes a part of all such rights, by any holder shall be considered the sale or exchange of a capital asset held for more than 6 months, regardless of whether or not payments in consideration of such transfer are—

(A) payable periodically over a period generally coterminous with the transferee's use of the patent, or

(B) contingent on the productivity, use, or disposition of the property transferred.

(2) “*Holder*” *defined*.—For purposes of this subsection, the term “holder” means—

(A) any individual whose efforts created such property, or

* * * *

(4) *Applicability*.—This subsection shall apply with respect to any amount received, or payment made, pursuant to a transfer described in paragraph (1) in any taxable year beginning after May 31, 1950, regardless of the taxable year in which such transfer occurred.

(26 U.S.C. 1952 ed., Sec. 117.)

IN THE
United States Court of Appeals
FOR THE NINTH CIRCUIT

No. 16,341

JOE L. SCHMITT, JR., and HELEN M. SCHMITT, *Petitioners*

v.

COMMISSIONER OF INTERNAL REVENUE, *Respondent*

**Petition to Review a Decision of The Tax Court
of the United States**

REPLY BRIEF FOR PETITIONERS

ROBERT ASH
CARL F. BAUERSFELD
1921 Eye Street, N. W.
Washington 6, D. C.

Attorneys for Petitioners

Of Counsel:

ASH, BAUERSFELD & BURTON



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**Petition to Review a Decision of The Tax Court
of the United States**

REPLY BRIEF FOR PETITIONERS

Respondent in his brief has done little more than restate the findings and opinion of the Tax Court. He has made no effort to meet the specific arguments presented by petitioners which demonstrate that the Tax Court's ultimate findings to be erroneous and require that its decision be reversed. The principal argument advanced by the respondent is that the petitioner only transferred to the territorial assignees a license to use the Exact-O-Matic System. The respondent's position is untenable. The entire record, and more particularly, the written contracts

provided that the petitioner assign all of his rights in the Exact-O-Matic System without limitation of time to the assignees. As pointed out in page 6 of the petitioners' original brief, paragraph 2 of the Territorial Assignment of Patent specifically provides as follows:

“Assignor hereby grants unto Assignee the exclusive right, privilege and franchise to use and sell the said Exact-O-Matic System (District, Unit A and Unit B), throughout the Territorial area described as follows:

“ * * * and to use, employ, and operate any and all methods, procedures, and processes covered by said Patents, Patents pending, Registration, and Copyrights, within and throughout the Territorial Area, and also any reissues or extensions thereof during the entire term of said Patents, Registrations, and Copyrights, subject, however, to the conditions and covenants hereinafter set forth. For the purposes of this agreement, the designation ‘patent’ is hereby defined to mean Patents, Patents pending, Registrations, Copyrights, and any oral or written agreement between the said ‘Assignor’ and Remington-Rand, Inc., a Delaware Corporation, heretofore or hereinafter issued to Assignor, relating to double entry machine bookkeeping methods, procedures, and processes.”

The many cases cited in petitioners' original brief fully support the position that petitioner transferred “all substantial rights” in the System.

The reasons given by respondent at pages 18-19 of his brief, for his position that only a license to use the System was transferred were that the wiring unit remained the property of the petitioner and that the assignee could only sell or dispose of his interest in the System with petitioners' written consent. The respondent is in error in asserting that the wiring unit remained the property of the petitioner. The record shows that petitioner designed a general accounting wiring unit to be used in tabulating machines manufactured by Remington-Rand as a part of the Exact-O-Matic System. (R. 66-67) The general ac-

counting wiring unit which was designed by the petitioner is an integral part of the Exact-O-Matic System. The petitioner never transferred his property rights in the general accounting wiring unit to Remington-Rand, but under a letter agreement with Remington-Rand, his rights in the unit were recognized. (R. 149-150) In the Territorial Assignment of Patent petitioner reserved no special rights to the wiring unit. It was merely a part of the Exact-O-Matic System and could be sold or transferred by the assignee in the same manner as the balance of the System. However, the approval of the petitioner was required to transfer the entire Exact-O-Matic franchise. The testimony regarding the ownership of the general accounting wiring unit is set forth in the record at pages 120-128, and 130-135. There the petitioner repeatedly testified that the franchise holders received a wiring unit as an integral part of the Exact-O-Matic System. Accordingly, the respondent is in error in now taking the position that the wiring unit remained the property of the petitioner.

Respondent completely disregards all the cases cited in petitioners' brief which hold that the franchise may be transferred only with the written consent of the assignor. Respondent completely fails to discuss the many cases cited in petitioners' brief where Courts have held that sales took place despite the fact that many more rights were retained in those cases than in the case at bar.

The respondent at pages 19-20 and again at page 24 of his brief points to certain conditions subsequent in the Territorial Assignment of Patent Agreement and asserts that had the franchise holders failed to uphold the covenants, the petitioner would have been entitled as a matter of contract law to rescind the entire agreement. While there is considerable question as to the legal accuracy of this statement, the answer is that the Courts have repeatedly held that the possibility of reverter to the assignor because of conditions subsequent do not prevent the trans-

action from being a sale and the gain therefrom entitled to capital gains treatment. See cases referred to in pages 13 and 14 of petitioners' original brief.

At page 20 of his brief, respondent cites the case of *Bailey v. Commissioner*, ¶50,237 P-H Memo T.C., as supporting his position. The respondent states that in the *Bailey* case the taxpayer granted to an "independent company," much more broadly than is the situation in the instant case, the sole and exclusive right to make, use and sell certain inventions. Despite the fact that memorandum opinions of the Tax Court have limited value as a precedent, the statement made by the respondent that the transfer in the *Bailey* case was to an "independent company" is not true. The fact is that the transfer in the *Bailey* case was made to a corporation in which the taxpayer was the President and a majority stockholder since its organization. The opinion states:

"We are satisfied that the arrangement between petitioner and his corporation was a license and not a sale under the original oral agreements and the first reductions to writing in prior years; and we have so held in the related case of *William M. Bailey Company*, 15 T.C. [(No. 65)], [¶15.65 P-H TC 1950], promulgated this day, where the question was whether the corporation was entitled under that agreement to deduct royalty payments as license fees paid for property of which it was not the owner.

"Petitioner at no time contends that the final formal agreement of 1945 did any more than to incorporate the previous arrangements in a writing and to formalize them. * * *"

In the companion case, *William M. Bailey Company*, 15 T.C. 468, the corporation contended that for the years 1942 and 1943 it was entitled to deduct the payments to Bailey as royalties. The Court sustained the corporation's right to deduct the payments as royalties. In his 1946 Federal income tax return, Bailey reported the royalties received

in that year from the corporation as long-term capital gain. The facts in the *Bailey* case between related taxpayers not dealing at arms' length can have no application to the case at bar.

At page 21 of his brief the respondent states:

“ * * * taxpayer also retained the right to defend all patent infringement suits and agreed to pay the costs of such litigation. The retention of such a right, coupled with the obligation to pay the cost of litigation, is clearly persuasive evidence that the transferor has retained a substantial proprietary interest in the transferred property * * * ”

Paragraph 12 of the Territorial Assignment of Patent provides: (R. 31)

“(12) Assignors agrees to defend at his own expense any litigation arising within or without the territorial area challenging his right to use any of the aforesaid patents *to the end that all rights secured to Assignee herein may be preserved.*” (Emphasis supplied)

As can be seen from paragraph 12 the petitioner did not “retain” anything by this paragraph. There is no reservation of power or rights contained in the paragraph. The paragraph is analogous to a warranty of title or a covenant to defend title which is a common provision in most deeds of conveyances of real property. *First National Bank of Princeton v. U. S.*, 136 F. Supp. 818, 48 AFTR 1082. The provision was one designed to protect and safeguard the rights and interest of the assignee. It was not intended to reserve to the assignor any property or proprietary right in the Exact-O-Matic System which was at variance with the assignment to the assignee of the exclusive right, privilege and franchise to use and sell the Exact-O-Matic System throughout the territorial area described without limitation as to time. *Watson v. United States*, 222 F. 2d 689, 47 AFTR 925. In many licensing agreements the patentee often retains legal title for the purpose of defending or

prosecuting patent infringement suits. In a number of cases the Commissioner has attacked these assignment agreements as being licenses rather than sales. Commencing with the case of *Parke, Davis & Co.*, 31 B.T.A. 427 (1934), the Commissioner has consistently met with defeat in an effort to have such agreements declared mere licenses. The Courts have held that the retention of title for the purpose of defending or prosecuting infringement suits did not render an otherwise valid sale a license. See for Example: *Watson v. United States*, 222 F. 2d 689, 47 AFTR 925, *First National Bank of Princeton v. U. S.*, 136 F. Supp. 818, 48 AFTR 1082, *Roe v. United States*, 138 F. Supp. 567, 49 AFTR 585, *General Spring Corporation*, ¶ 53,257 P-H Memo T.C.

At pages 21-23 of his brief, the respondent argued that petitioner did not intend to divest himself of his ownership rights in the Exact-O-Matic System when granting territorial franchises. This assertion is based upon descriptive statement contained in an agreement made in December 1949 between petitioner and a corporation he organized known as the Exact-O-Matic System, Inc., an Arizona corporation. In that agreement the petitioner is described as "the sole owner of the entire right, title and interest in and to certain United States patents, patents pending," etc. referred to under the trade name, Exact-O-Matic System, Inc. The records shows that petitioner organized the corporation known as Exact-O-Matic System, Inc. for the purpose of using and operating the System in the State of Arizona. In addition, the corporation took over petitioner's obligation to train the personnel of the territorial franchise holders in the use of the System. The petitioner was the "sole owner" of the entire right to the Exact-O-Matic System for the State of Arizona. Several territorial franchises had been granted at the time the agreement was made in December 1949, but the agreement specifically provides that it is subject to the provisions and

limitations contained in Territorial, District, Unit "A", Unit "B" and Unit "I" franchises issued or to be issued. Accordingly, it can not be argued that this agreement expresses an intent on the part of the petitioner that is not consistent with divestiture of ownership rights in the Exact-O-Matic System under the Territorial Assignments of patent. In support of his argument the respondent there cited and quotes from the case of *Eterpen Financiera Sociedad v. United States*, 108 F. Supp. 100, 42 AFTR 831. The facts in the *Eterpen* case readily distinguish it from the case at bar. In the *Eterpen* case the taxpayer entered into a licensing agreement with Eversharp, Inc. and Eberhard Faber Corporation licensing its United States patents on a ball pointed fountain pen and writing ink for use in such pen for a period of years. At the same time, it entered into a separate option agreement granting the licensees an exclusive option to purchase for the area embraced in the licensing agreement the entire *right, title and interest* in and to the patents and patent applications covered by the license agreement for the lump sum of \$1,500,000. Subsequently, Eversharp exercised the option and purchased the patent rights for a lump sum. The substance of the Court's holding was that the first agreement was intended as a mere licensing agreement; otherwise, the parties would not have executed the option agreement providing for the purchase for a lump sum. Furthermore, the very fact that Eversharp exercised the option agreement showed that the license agreement constituted a mere license and not a sale. This case can have no application to the case at bar.

At page 25 of his brief the respondent states that it makes no difference why the taxpayer retains certain rights, but having chosen to do so, he is subject to the ordinary income tax rates. The respondent is wrong in stating that the reason for the retention of rights or provisions of an agreement make no difference. This is the same erroneous

concept that permeates the Tax Court's opinion. As pointed out at pages 14 and 15 of petitioners' original brief, the nature of the rights involved and the peculiarities inherent in each patent must be taken into consideration in determining whether all the substantial rights have been sold. See *United States v. Carruthers*, (CA-9 1955), 219 F. 2d 21, 46 AFTR 1626; *Lawrence v. United States*, (CA-5, 1957), 242 F. 2d 542, 50 AFTR 224.

At page 25 of his brief the respondent states:

“ * * * Indeed, taxpayer recognized that part of the income he derived from the franchise agreements was taxable at ordinary income rates when he reported his royalty payments as ordinary income. See *Switzer v. Commissioner*, 226 F. 2d 329, 333 (C.A. 6th). At no point during these proceedings has he suggested that this was incorrect, or offered any reason for treating the lump sum payments differently, and we submit that the lump sum payments stand on the same footing tax-wise as the continuing royalty payments, and are likewise taxable as ordinary income.”

A similar statement appears in the Tax Court's opinion. (R. 155) However, this statement, coming from the respondent, must have been made with his “tongue in his cheek.” In the case of *Edward C. Myers*, 6 T.C. 258 (1946), the Tax Court held that an inventor may receive capital gains benefits from the sale of his patent rights despite the fact that he was paid a royalty from the proceeds resulting from the sales of the patented product. The Commissioner first acquiesced in that decision. However, on March 20, 1950, the Commissioner withdrew his acquiescence as to royalties received from exclusive licensing agreements in Min. 6490, 1950-1 CB 9 and said:

“4. The Bureaus has reached the conclusion that where the owner of a patent enters into an agreement whereby, in consideration of the assignment of the patent, or the license of the exclusive right to make, use, and sell a patented article, the assignee or licensee

agrees to pay to the assignor or licensor an amount measured by a fixed percentage of the selling price of the article so manufactured and sold, or amounts per unit based upon units manufactured or sold, or any other method measured by production, sale, or use either by assignee or licensee, or amounts payable periodically over a period generally coterminous with the transferee's use of the patent, such agreement, for income tax purposes, is to be regarded as providing for the payment of royalties taxable as ordinary income.

“5. Acquiescence in the decision of The Tax Court of the United States in *Edward C. Myers v. Commissioner* (6 T. C. 258), as it relates to the issue whether the payments involved therein were taxable as gain from the sale of property, is hereby withdrawn and non-acquiescence substituted.”

In 1954, Congress to remedy the situation created by the non-acquiescence in the *Myers* case enacted Section 1235 (a) (12) of the Internal Revenue Code of 1954. In 1955 the Commissioner issued ruling 55-58, CB 97 interpreting Section 1235 to apply to payments received in 1954 and subsequent years, but not to apply to amounts received in the taxable years after May 31, 1950 and before January 1, 1954, and accordingly, announced that payments received by inventors for the taxable years after May 31, 1954 would be received as ordinary income. In response to this ruling of the Commissioner, Congress again in 1956 enacted Section 117 (q) of the Internal Revenue Code of 1939 in substantially the same terms as Section 1235 of the Internal Revenue Code of 1954 and provided that the statute should be applicable to any payments made pursuant to a transfer of patent rights in any taxable year beginning after May 31, 1950 regardless of the year in which the transfer occurred. This entire history is set forth in the case of *Rollman v. Commissioner*, (CA-4, 1957), 244 F. 2d 634, 51 AFTR 445. In view of the uncertainty of the law at the time the payments were received and the position taken by the Commissioner regarding royalty payments, it is unjustified to argue

that because the petitioner reported the royalty payments as ordinary income there was no sale.

CONCLUSION

For the reasons stated above and in petitioners' main brief, the decision of the Tax Court should be reversed.

Respectfully submitted,

ROBERT ASH
CARL F. BAUERSFELD
1921 Eye Street, N. W.
Washington 6, D. C.

Attorneys for Petitioners

Of Counsel:

ASH, BAUERSFELD & BURTON

No. 16345 ✓

United States
Court of Appeals
for the Ninth Circuit

GERMANA E. PRAIDO DEL CASTILLO,
Appellant.

vs.

UNITED STATES OF AMERICA,
Appellee.

**STATEMENT, BRIEF and ARGUMENT
of APPELLANT**

Appeal from the United States District Court for the
District of Arizona

FILED

MAY 28 1959

PAUL P. GILBERT, JR.



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(For the convenience of the Court, the essence of the discussion is summarized in a concise heading of each point in the argument, and the material broken down in compact sections and keyed with corresponding numerals. The ease and simplicity of presentation, therefore, does away with the necessity of a summary argument.)

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(Errata: TR—29, line 8, to read Exhibit E)	



ATTORNEYS OF RECORD

JOSE DEL CASTILLO,
221 North Church,
Tucson, Arizona,
Attorney for Appellant

JACK D. H. HAYS,
United States Attorney,
204 United States Courthouse,
Phoenix, Arizona;

MARY ANNE REIMANN,
Assistant United States Attorney,
P. O. Box 1951,
Tucson, Arizona,

Attorneys for Appellees.

In the

UNITED STATES COURT OF APPEALS

for the Ninth Circuit

No. 16345

STATEMENT, BRIEF and ARGUMENT

of APPELLANT

GERMANA E. PRAIDO DEL CASTILLO,
Plaintiff,

vs.

THE UNITED STATES OF AMERICA,
Defendant.

REPORT OF OPINION BELOW

The district court delivered no written opinion or discussion of the case, but just made brief remarks to the effect: (on vacating order denying motion to dismiss and granting motion to dismiss), that statutory provision making valid filing of claim within 7 years provided no amending clause in enacting clause of Par. (5), §802 (d) (3) (B) 38 U.S.C.; (on further extension of the 6-years statute of limitation, Sec. 445, 38 USC, upon persons under legal disability) that there is no alleged fact of legal disability of plaintiff in the Amended Complaint.

JURISDICTION

Jurisdiction of the District Court was predicated upon the existence of final disagreement between Appellant-plaintiff and the Veterans' Administration on January 8, 1958. TR—22-23. 38 USC § 445, incorporated by reference in 38 USC § 817, makes the right to maintain a suit dependent upon a "disagreement" between Veterans' Administration and claimant and defines a "disagreement" as a denial of a claim by the Administrator, or someone acting for him on an appeal to the Administrator. 38 USC §445c, enacted for purpose of "clarifying" §445, enlarges the definition to include denial by Administrator, or review by Board of Veteran's Appeals.

The judgment of the District Court was entered on December 12, 1958. TR—40. Notice of appeal filed December 19, 1958. TR—41.

Jurisdiction of this Court is invoked under 28 USC §1291.

THE CONTESTED ISSUES

1. The questions here presented may conveniently be started with this simple problem:

The defendant moved the court to dismiss for lack of jurisdiction by reason of the statute of limitation and declared that its motion is based upon the facts set forth in the Amended Complaint. Plaintiff contended that, under the Rules of Civil Procedure, defendant's motion is considered as one for summary judgment and in effect represents that there exists no genuine issue of any material fact. Plaintiff further contended that defendant has thereby conceded the truth of *the facts set forth in the Amended*

Complaint, and plaintiff having moved, in a cross-motion, for summary judgment, in his favor, based upon the same facts defendant stated, the parties, therefore, are in agreement that there is not any fact on which an issue could be raised for further trial.

2. Whether the amended provision of paragraph (5), subsection 802 (d) (3) (B), 38 USC, under which claimant applied for the benefits of automatic gratuitous insurance, which makes valid a claim filed within seven (7) years after death of insured, operates as an exception, as to the matter of time, to the general provision of section 445, 38 USC, which provides that a suit shall be brought within six (6) years after accrual of the contingency for which the claim is made and further provides that the running of the statute of limitation shall be suspended for the period between the filing of the claim with the Veterans' Administration and its final denial when a "disagreement" is said to exist and when only then the court could take jurisdiction.

3. The case involves further the simple question whether the fact of plaintiff's legal disability by reason of her residence in the Philippines during the hostilities between the United States and Japan may not have been sufficiently pleaded and raised in the Amended Complaint which avers facts from which such residence could necessarily be drawn, and which further alleges formally that six years have not elapsed since accrual of the right for which claim is made in this action; whether such fact which the law may presume is properly before the court when defendant moved to dismiss for lack of jurisdiction because of the statute of limitation, basing

its motion upon the facts set forth in plaintiff's Amended Complaint; and whether plaintiff need have pleaded a presumption of law.

STATEMENT OF THE CASE

This is an appeal from a final judgment of the lower court dismissing an action upon a claim for automatic gratuitous insurance under the National Service Life Insurance brought by appellant-plaintiff as the last person to stand in locos parentis of one Priscillano Estil Praidó, USSAFE, beleaguered and killed in Bataan, Philippines, on April 3, 1942. The date of serviceman's death is a presumption accepted by the Veterans' Administration upon affidavits supplied by comrades in arms, since the Armed Forces of the United States failed to furnish the next of kin with the required information.

Defendant government moved the court to dismiss the action "for the reason that this Court does not have jurisdiction in this matter and that plaintiff has failed to state a claim. This Motion is based on the Stipulation of Facts and facts as set forth in plaintiff's Amended Complaint therein, and upon the authorities set forth in the Memorandum attached thereto." TR—13.

Plaintiff, in a cross-motion and in opposition to the motion to dismiss, in turn, moved the court to enter a "summary judgment in her favor for the relief demanded as to the benefits for automatic gratuitous insurance under the National Service Life Insurance Act, on the ground that there is no genuine issue as to any material fact and that plaintiff is entitled to a judgment as a matter of law." TR—16. The motion is based on (a) stipulations of

facts between the parties and the facts as set forth in the Amended Complaint as defendant's basis for its motion to dismiss, and upon other matters referred to and affidavits attached thereto.

The facts are admitted. Plaintiff was the last person to stand in *locos parentis* to the deceased serviceman and at the time of his death was dependent upon him. "Plaintiff acquired such status when on or about 1933, while the serviceman was about 16 years old, the natural mother, a widow, was seriously afflicted with pulmonary tuberculosis and later with cancer until her death on or about November 17, 1943, and was so incapacitated to ever act as parent to the serviceman." TR—4.

At the time of the serviceman's death, a contract of automatic gratuitous insurance was in full force and effect in the sum of \$5,000.00 as provided under subsection 802 (d) (3) (B), 38 U.S.C. Paragraph (5) of said subsection further provides in pertinent part, as follows: "Provided, That no application for insurance payments under subsection (d) (2) or (3) of this section, shall be valid unless filed with the Veterans' Administration within seven years after the date of death of insured by evidence satisfactory to the Administration . . ."

Plaintiff filed her claim with the Veterans' Administration on June 11, 1948. TR—14.

No administrative denial of plaintiff's claim for automatic gratuitous insurance benefits was communicated to her at her last address on record, nor anywhere else. At all times, plaintiff believed her claim was being processed, as she was assured by the Manila office of the Veterans' Administration

whenever she went in that office to make inquiries. TR—6, 7, 18.

On writing a letter to the Veterans' Administration in Washington, D.C., she was informed, in a reply letter dated July 31, 1956, that her claim for automatic gratuitous insurance payments was denied in a letter purported to have been written dated March 21, 1950, "for the reason that you were not the last person to stand in the position of mother to the serviceman prior to his entry into service." TR—21.

Said letter of March 21, 1950, was never delivered or communicated to her at her last address on record or anywhere else. This uncontroverted fact is admitted. Section 445d, 38 U.S.C., provides in pertinent part, as follows: "Provided, That on or after June 29, 1936, notice of denial of the claim under a contract of insurance by the Administrator of Veterans' Affairs or someone acting in his name shall be by registered mail directed to the claimant's last address of record: Provided further, That the term 'denial of claim' means the denial of the claim after consideration of its merits."

From the administrative letter of July 31, 1956, plaintiff appealed to the Administrator of Veterans' Affairs, upon VA Form 1-9, furnished by the Veterans' Administration for the purpose, filing her appeal on June 18, 1957. TR—6-7.

In a letter dated January 8, 1958, the Veterans' Administration informed plaintiff that the appeal she filed on June 18, 1957, may not be given consideration. TR—22-24, Exhibit B.

On February 24, 1958, appellant filed suit. On May 6, 1958, plaintiff filed her Amended Complaint, as of course. TR—3-9. The United State Attorney General was served with the Amended Complaint on May 6, 1958. TR—11.

Notwithstanding the fact that defendant has conceded the *facts as set forth* in Plaintiff's Amended Complaint, it opposed plaintiff's cross-motion for summary judgment for the reasons that "The attorney for the plaintiff herein states as a fact in his Motion that the plaintiff was the last person to stand in locos parentis to the deceased serviceman. If the Motion to Dismiss, filed by the Government, is denied this question is a genuine issue to a material fact which must be determined by the Court. Exhibit (A) and (B) attached to plaintiff's Motion plainly shows a dispute on this point. A Motion for Summary Judgment should, therefore, not be granted since a genuine issue of fact material to the dispute by the parties exists." TR—25.

Apparently, defendant's reference to "The attorney for the plaintiff herein states as a fact in his Motion that the plaintiff was the last person to stand in locos parentis to the deceased serviceman," must be referring to something to that effect in the attached exhibits A and B, TR—2-23, and not in the motion itself, TR—16-17.

At a hearing coming on regularly, on September 29, 1958, the court denied defendant's motion to dismiss, and also denied plaintiff's cross-motion for summary judgment.

On October 21, 1958, the court recalled the parties herein at a hearing and made these orders: vacated the order of September 29, 1958, denying defendant's

motion to dismiss, and granted defendant's motion to dismiss. The court remarked in effect that there is no amending clause in the enacting clause of paragraph (5), subsection 802 (d) (3) (B), 38 U.S.C., which would have amended the six-year limitation provided in section 445, 38 U.S.C.; and as to the further extension of the limitation period to persons under legal disability, the court in effect remarked that there was no such legal disability before the court.

Thereupon, plaintiff filed a motion for leave to file an amendment to the Amended Complaint and motion to alter or amend a judgment. Plaintiff sought to allege formally facts setting forth facts of plaintiff's legal disability by reason of her residence in the Philippines during the hostilities between the United States and Japan. The motion was based upon an affidavit, attached to the motion, executed by plaintiff in support thereof, as Exhibit E. TR—35-37.

Defendant opposed plaintiff's motions for the reason that "proposed Amended Complaint . . . would not cure the jurisdictional defect of the First Amended Complaint theretofore dismissed . . . in that the plaintiff's claim for gratuitous insurance benefits is barred by the limitation provisions of Title 38 U.S.C. 445, incorporated by reference in Section 817 of the same Title." TR—38. The lower court denied plaintiff's motions. On December 12, 1958, the court directed the Clerk to enter judgment that plaintiff take nothing by her Amended Complaint and the same be dismissed.

From the judgment and orders plaintiff appealed to this Court.

SPECIFICATION OF ERRORS

1. Where the defendant moved to dismiss the complaint, for lack of jurisdiction and of statement of a claim, submitted to the court specifically declaring that its motion is "based on the Stipulation of Facts and facts as set forth in plaintiff's Amended Complaint herein," the defendant has thereby expressly conceded the truth of all such facts so stated as stipulated and as set forth in the Amended Complaint, without qualification; and the court in passing upon the defendant's motion to dismiss and the plaintiff's cross-motion for summary judgment, should have accepted as true the facts so stipulated and the facts as set forth in the Amended Complaint, without qualification, and should have found that there existed no genuine issue of any material fact for further trial and should have construed the allegations of the pleading most favorably in a summary judgment in plaintiff's favor. The court in denying the plaintiff's motion for summary judgment, therefore, committed error.

(2) WHERE a claimant of automatic gratuitous insurance, under the National Service Life Insurance Act, could not sue the United States until a "disagreement" exists, and this required jurisdictional condition could exist only on Claimant's filing a claim with the Veterans' Administration and being rejected, the amended provision of Paragraph (5), subsection 802 (d) (3) (B), 38 USC, under which claimant applies which makes valid a claim filed within 7 years after the death of the insured, creates a cause of action on the filing and rejection of the claim and operates as an expressed exception, as to the matter of time, to the general provision of

section 445, 38 USC. And a claim filed June 11, 1948, for the automatic gratuitous insurance of the insured killed in Bataan on April 3, 1942, was therefore duly filed under the law as Congress so intended, giving effect to the suspension of the running of the statute of limitation for the period elapsed between the filing of plaintiff's claim with the Veterans' Administration and the final administrative denial of the claim on January 8, 1958; and suit filed in the District Court on February 24, 1958, is properly brought. The lower court in failing to find that the action was timely brought under the statutes committed error.

3. When the facts from which the law may presume the fact of the residence of the plaintiff in the Philippines during the period of hostilities between the United States and Japan are stated in other material allegations in the Amended Complaint, and it has been further alleged that six years has not passed since accrual of plaintiff's right of action; and defendant having moved the court to dismiss for lack of jurisdiction by reason of the statute of limitation and having based its motion on the facts as set forth in the Amended Complaint, the matter of plaintiff's legal disability which would have extended further the period of limitation in which claimant may file a claim by reason of such residence was sufficiently pleaded and raised as to satisfy the application of the statutory provision extending the period of limitation to such other person under legal disability. And the limitation having been suspended according to the statutory provision from the date of plaintiff filing her claim with the Veterans' Administration on June 11, 1948, to its final rejection

on January 8, 1958, the plaintiff having filed action on February 24, 1958, the court should have found that the suit was brought within the statutory limitation provisions; and in granting defendant's motion to dismiss, the court committed error.

If the questions presented in the **CONTESTED ISSUES** are not answered in favor of the appellant, the additional question raised in the Statement of Point in the Notice of Appeal will also be presented. These include whether (1) the court erred in denying plaintiff's motion for leave to file amended complaint on the ground stated and set forth to show the ultimate facts of legal disability stated therein and motion to alter or amend a judgment.

ARGUMENT

FIRST POINT

The defendant, in having submitted to the court and specifically declared that its motion to dismiss is "based on the Stipulation of Facts and facts as set forth in plaintiff's Amended Complaint herein," and the plaintiff, in joining by another pleading in the form of a cross-motion for summary judgment on the same basis of facts, have therefore appropriately placed the facts so stipulated and the facts as set forth in plaintiff's Amended Complaint upon the record, and constituted thereby an admission by both parties of the truth of such facts as well as a mutual admission that there exists no genuine issue at all of any material fact that would have necessitated any further trial, but that the court, sitting without a jury, may apply the applicable rules of law on the facts so submitted. They, too, conveniently placed the

questions of law in controversy before this Court for review.

(A) Preliminary considerations.

Ordinarily, motions to dismiss complaint admitted all facts well pleaded and all facts that could be reasonably inferred from the facts alleged.

Wooten vs. Wooten, C.C.A. N.M. 1945, 151 F. 2d, 147, 161 ALR 1027;

Fash vs. Clayton, D.C. N.M. 1948, 78 F. Supp. 359;

Inland Empire Dist. Council, etc., vs. Graham, D. C. Wash. 1943, 53 F. Supp. 369, appeal dismissed 142 F. 2d, 453.

“In passing upon the motions to dismiss and the cross-motions for summary judgment, the averments of the complaint must be accepted as facts,” declared the Court in Iversen v. United States, 63 F. Supp. 1001, affirmed 66 S. Ct. 825, 327 U.S. 767, 90 L. ed. 998.

In this jurisdiction, the defendant herein, by moving to dismiss on the ground of jurisdiction by reason of the statute of limitation, has in effect admitted that there exists no genuine issue of any material fact. In Hartley Pen Co. v. Lindy Pen Co., Inc. (SD Calif. 1954) 20 FR. Serv. 24c.31, Case 2, 16 FRD 141, this Court says:

“Although it has been decided that notwithstanding the provisions of Rule 8 (c) . . . the affirmative defense of bar of the statute may be raised by motion to dismiss pursuant to Rule 12 (b) (6) . . . in view of the nature of the defense the better practice is to raise the question by mo-

tion for summary judgment pursuant to Rule 56 (b).”

Other courts find this opinion to be sound. In *Williams vs. United States*, D. C. N. C., 1955, 134 F. Supp. 333, where the government moved to dismiss the action to recover on a National Service Life Insurance policy on the ground the six-year statute of limitation and correspondence was introduced by both parties in relation thereto, motion to dismiss would be considered as one for summary judgment.

Courts have repeatedly held: that a motion to dismiss upon the ground that the cause is barred by statute of limitation and by laches is a “speaking demurrer” and it is immaterial whether it is designated as a motion to dismiss or for summary judgment. Courts have recognized this expeditious methods of disposing off litigation since the adoption of the Federal Rules of Civil Procedure. *Latta vs. Western Inv. Co.* (C.C.A. 9th, 1949) 173 F. 2d 99, 12 F.R., cert. den. 337 U.S. 940, 69 S.Ct. 1516, 95 L.ed. 1744; *Fauchier vs. McNeil Const. Co.*, 84 F. Supp. 574 (affidavits may be used).

It would not really matter what designation defendant placed on its motion; in any case, it has voluntarily adopted, specifying so, the facts set forth in the Amended Complaint as the basis of its motion. By doing so—

(B) Defendant’s motion constitutes an admission that there is no dispute as to the facts set forth by plaintiff in her Amended Complaint; that it conceded the truth of such facts. This the defendant has done through regular pleadings and signed by counsels of the defendant. They could not have spread the

facts upon the record more conclusively than they have effected. Having done so, defendant could not have any reason, later, to evade or quibble about, as to any issue of fact which by its own voluntary and affirmative action it admitted in effect that it does not exist, and submitted, by pleading, to the court that it passes judgment in accordance with the law applicable to the stipulated facts and the facts set forth in plaintiff's Amended Complaint.

The plaintiff, in turn, in a cross-motion for summary judgment, based, for one, on the same stipulated facts and facts set forth in the Amended Complaint, jointly submitted the same stated facts to the court, and therefore mutually agreed with the defendant that there exists no genuine issue of any material fact for further trial, but the application of the rules of law upon the facts the parties mutually submitted for adjudication.

This is an inexpensive and expeditious manner of securing the decision of the court conveniently and without delay, as well as appropriately placing the questions of law in controversy before the appellate court for review. *Suydam vs. Williamson*, 20 How. (U.S.) 427, 15 L. ed. 978.

The correspondences from the Veterans' Administration, attached as Exhibits (A) and (B), TR—21-23, were introduced as evidence in support of plaintiff's cross-motion for summary judgment to prove the existence of "disagreement" which is the condition required for the court to take jurisdiction. The reference to Exhibit (A) and (B), TR—25, seemingly showing a dispute is of no moment. The defendant has all this time in its possession the plaintiff's appeal and the memorandum in support there-

to, together with supporting affidavits, submitted to the Board of Veterans Appeals which was not given consideration, TR—23, showing by fact and law that plaintiff just as alleged in the Amended Complaint was the last person to stand in *locos parentis* with the insured serviceman and was dependent upon him at the time he was killed by the Japs while fighting for the United States. Defendant has, therefore, knowledge of the facts and the law when it moved the court to dismiss and declared that it based its motion upon the facts set forth in the Amended Complaint, conceding affirmatively the truth of plaintiff's alleged facts. But even if defendant might have filed affidavits to deny such facts, the court should still be obliged to indulge the presumption that plaintiff might be able to prove them. But, as the case at bar is, the defendant admitted the facts it sought to breath in fire of dispute. We respectfully submit that the facts stipulated between the parties and the facts set forth in the Amended Complaint affirmatively adopted and conceded by defendant in its motion are conclusive upon defendant-appellee, and that summary judgment should have been granted plaintiff-appellant.

We confidently submit that the lower court clearly erred in denying plaintiff-appellant's cross-motion for a summary judgment on the ground that there is no genuine issue of material fact for further trial, since both parties admitted and submitted by pleadings the facts stipulated upon and stated in the amended complaint for the application by the court of the law applicable, and that under the law plaintiff-appellant is entitled to judgment, based upon the matters set forth therein (TR—16-17).

SECOND POINT

The amended provision of Paragraph (5) § 802 (d) (3) (B), 38 U.S.C., under which claimant applied, which makes a claim valid filed with the Veterans' Administration within seven (7) years after the death of the insured, where a claimant of automatic gratuitous insurance benefits could not sue the government until the claim is first filed with the Veterans' Administration and is rejected, (A) creates thereby a cause of action in favor of claimant dependent upon such disagreement (1) since a disagreement is a jurisdictional pre-requisite to the maintenance of a suit on the insurance policy benefits, (2) qualifying and stopping the six-year limitation provided in § 445 from operating so that claimant who is prevented, unless there exists a disagreement, from suing can have the full benefit of the time allowed her in which to bring her action, and (3) because Section 445 was intended to insure the application of the general rule of jurisdiction that administrative remedies must be exhausted before appeal is made to the courts; and, further, (B) operates as qualifying and supplying exception to the general rule of statute of limitation, where the general and the specific provisions are in apparent conflict, (1) since rules of statutory construction should give the effect contemplated by the legislature, one portion of a statute should not be construed to annul or destroy that has been clearly granted by another, but construed so that all may stand together.

And since the whole period during which the appellant's claim was held in the Veterans' Administration was suspended, appellant's action is not barred by the statute of limitation.

Preliminary considerations.

This action is upon an "automatic gratuitous insurance," and the action for this particular type of insurance is brought under Section 802 (d) (3) (B), 38 U.S.C., which provides:

"Any person in the active service who on or after December 7, 1941, and prior to April 20, 1942, has been or shall be captured, besieged, or otherwise isolated by the forces of the enemy of the United States for a period of at least thirty consecutive days and extending beyond April 19, 1942, and at the time of such capture, siege, or isolation by the enemy did not have in force insurance in the aggregate amount of at least \$5,000 under the War Risk Insurance Act, as amended, the World War Veterans' Act, 1924, as amended, or this subchapter, shall be deemed to have applied for and to have been granted, effective as of date of such capture, siege, or isolation, National Service Life Insurance in the amount which together with any such insurance then in force shall aggregate \$5,000 insurance, and such insurance shall remain in force and premiums on such insurance shall be waived during the period while such person remains so captured, besieged, or isolated, and for six months thereafter: . . ."

The USSAFE serviceman, Priscillano Estil Prado, who was killed while beleaguered on Bataan on April 3, 1942, was such a person deemed to have been issued insurance. The appellant, as person in *locos parentis* to the serviceman, filed claim for the benefits under such insurance according to Paragraph (5) of the foregoing subsection which provides:

“If any person deemed to have been issued insurance under subsection (d) (3) (A) or (B) of this section die without filing application and within the time limited therefore, death insurance benefits shall be payable in the manner and to the persons as stated in subsection (d) (2): *Provided*, That no application for insurance payments under subsection (d) (2) or (3) of this section, shall be valid unless filed with the Veterans’ Administration within *seven years* after the date of death of insured by evidence satisfactory to the administration . . .” (Italics supplied)

The claimant, appellant, filed a claim for the benefits on June 11, 1948, about 10 months within seven years, after death of the insured. The claim was finally denied on January 8, 1958. She brought action on February 24, 1958.

The right of action for this type of insurance benefits is provided by § 817, 38 U.S.C., which provides that suit may be brought upon a claim subject to the same conditions as are applicable to United States Government Life (converted) insurance under the provisions of 38 U.S.C. § 445 and 551. Section § 445 makes the right to maintain a suit dependent upon a “disagreement” between the Veterans’ Administration and the claimant, and defines a “disagreement” as a denial of a claim by the Administrator, or someone acting for him, on an appeal to the Administrator. 38 U.S.C. § 445c, enacted for the purpose of “clarifying” § 445, enlarges the definition of “disagreement” to include a denial of a claim by the Administrator *without requiring that the denial be upon an administrative appeal*. It thus appears that a claimant has an option (1) of instituting

ERRATA

APPEELANT'S Main Brief

Page 21, quotation starting at line 19 read: "In a statute referred to are taken."

Page 34, line 17, insert, between "insane persons" and "or persons" the following: "or persons under other legal disability."

suit in the District Court immediately after his claim has been denied or (2) of appealing his case to the Administrator, and if that decision is adverse, of then instituting suit in the District Court. The statute of limitation is suspended during the whole period that the claim is held in the Veterans' Administration. *Howard v. United States*, 97 F.2d. 987.

"Denial" as used in the statute, signifies something more than an intradepartmental Act or decision to the party making the claim. *United States v. Green*, (C.A. 6th Tenn.) 84 F.2d. 449

In rejecting a claim, the word "denial" need not specifically be used, if the intent to refuse payment of insurance to the claimant is otherwise evident. *Burns v. United States* (C.A. 2d N.Y.) 101 F. 2d. 83.

The bringing of this action, being subject to the conditions in §445, 38 U.S.C., incorporated by reference in § 817, 38 U.S.C., "In a statute of specific reference only the appropriate parts of the statute re-

2 Horack's Sutherland on Statutory Construction, 3rd Ed. § 5208;

Panama R. Co., v. Johnson, 264 U.S. 375, 68 L. ed. 748, 44 S. Ct. 391.

Accordingly all the conditions in § 445, except as to that in apparent conflict or could not be reconciled, by the language and meaning therein, with subsection 802 (d) (3) (B) Paragraph (5) are available and govern this action.

A. Said Paragraph (5) *Creates a cause of action dependent upon a "disagreement."*

Since the filing of a claim with the Veterans' Administration and its denial, when a "disagreement" could thereby exist, is a pre-requisite to the federal courts' taking jurisdiction (§ 445, 38 U.S.C.; *Leyerly vs. United States*, 162 F.2d. 79) when a claimant, therefore, makes a valid application for a claim with the Veterans' Administration within 7 years (e.g. a month, two months, or eleven months), according to Paragraph (5), § 802 (d) (3) (B), 38 U.S.C., this statutory provision then creates expressly a cause of action for such a claim so filed within 7 years and denied by the Veterans' Administration.

A party pursuing a strictly legal remedy cannot be adjudged in the wrong because of any delay on his part if he acts within the time allowed and pursues the method prescribed by the statute.

United States vs. American Bell Teleph. Co., 167 U.S. 224, 42 L.ed. 144, 17 S.Ct. 809.

- (1) *(Since) a disagreement is a jurisdictional pre-requisite to the maintenance of a suit on the insurance policy benefits.*

The claimant may sue the United States only as authorized by the provision of § 445, 38 U.S.C., which in pertinent parts provides:

"In the event of disagreement as to the claim, including claim for refund of premiums, under a contract of insurance between the Veterans' Administration and any person or persons claiming thereunder an action on the claim may be brought against the United States either in the United States District Court for the district of Columbia or in the District Court of the United States in

and for the district in which such person or any-one of them resides and jurisdiction is conferred upon such courts to hear and determine all such controversies . . .”

On this point of the said section, the courts are well-settled in their construction as expressed in the case of *Leyerly vs. United States*, 162 F.2d. 79, in which the court held:

“Construing the foregoing statute (§ 445, 38 U.S.C.) we have pointed out that a suit on a war risk insurance contract is a suit against the Government, and that one of the conditions of its consent to be sued is the existence of a ‘disagreement’ between the Veterans’ Administration and the claimant. In other words a disagreement is a jurisdictional pre-requisite to the maintenance of a suit on the insurance contract. *McLaughlin vs. Journey*, 10 Cir., 82 F.2d. 772. And a disagreement arises only when a claim has been filed with the Veterans’ Administration, and rejected. *Wilson vs. United States*, 10 Cir., 70 F.2d. 176.”

In effect, then, the provision of said Paragraph (5), when a claim has been filed within 7 years, acts as

- (2) *Qualifying and stopping the six-year limitation provided in § 445 from operating so that claimant who is prevented, unless there exists a disagreement, from suing can have the full benefit of the time allowed her in which to bring action.*

The AMERICAN JURISPRUDENCE, in 34 AM JUR § 188, it is stated:

“However, the courts give to a law creating an exception the object of which is to prevent the statute from running during the time the claimant is prevented without fault on his part from suing, so that he can have the full benefit of the time allowed him in which to bring his action. Some courts exclude from the operation of the statute of limitations cases in which no action can be brought at all, either for want of parties capable of suing, or because the law prohibits the bringing of the action.”

Amy vs. Watertown, 130 U.S. 320, 32 L.ed. 953, 9 S.Ct. 537; United States vs. Wiley, 11 Wall. (U.S.) 508, 20 L.ed. 211; Braun vs. Sauerwein, 10 Wall. (U.S.) 218, 19 L.ed. 895.

In Amy v. Watertown, *supra*, the court says: “There is one class of cases which is excluded from the operation of the statute by act of law itself, of which the case in which Mr. Justice Strong made the remark referred to is one. This class embraces those cases in which no action can be brought at all, either for want of parties capable of suing, or because the law prohibits the bringing of an action.”

In the case at Bar, the claimant has no way of suing in any court until there has existed a “disagreement” between her and the Veterans’ Administration, which “disagreement” could have existed only after she had filed her claim with the Veterans’ Administration and was rejected.

The statute of limitation ceases to run against a claimant whose power to institute his suit has been taken away by statute, whether such exception is

contained in the act of limitation or not.

Broadfoot v. Fayetteville, 124 N.C. 478, 32 S.E. 804.

The opinion of the court in the foregoing case has been drawn and supported by the well-settled doctrine established by the United States Supreme Court, quoting authoratively from the cases, as follows:

“These views are so well expressed in *United States v. Wiley*, 11 Wall. 508, that we cannot do better than quote a part of the opinion in that case: ‘But it is the loss of the ability to sue, rather than the loss of the right, that stops the running of the statute. The inability may arise from a suspension of right, or from the closing of the courts; but, whatever the original cause, the proximate and operative reason is that the claimant is deprived of the power to institute his suit. Statutes of limitation are, indeed, statutes of repose. They are enacted upon the presumption that one having a well-founded claim will not delay enforcing it beyond a reasonable time, if he has the power to sue. Such reasonable time is therefore defined and allowed. But the basis of the presumption is gone whenever the ability to resort to the courts has been taken away. In such a case the creditor has not the time within which to bring his suit that the statute contemplated he should have.’ ”

The court, referring further to United States Supreme Court decisions, says:

“These cases were approved in *Braun v. Sauerwein*, 10 Wall. 218, where it was said: ‘Similar decisions . . . have been made in state courts. They all rest on the ground that the creditor has been

disabled to sue by a superior power, without any default of his own; and, therefore, that none of the reasons which induced the enactments of the statutes apply to his case; that, unless the statutes cease to run during the continuance of the supervening disability, he is deprived of a portion of the time within which the law contemplated he might sue.' "

These views provide structural strength to the opinion more aptly expressed by state supreme courts of states within this circuit district that where laws create special statutory proceedings, as in the case at Bar, the provisions of the general law of limitations are sometimes construed as not applying thereto.

State Medical Examiner Bd., vs. Stewart,
46 Wash. 79, 89 P. 475, 11 L.R.A. (N.S.)
557;

People vs. Reid, 195 Cal. 249, 232 P. 457,
36 A.L.R. 1435.

- (3) *Section 445 was intended to insure the application of the general rule of jurisdiction that administrative remedies must be exhausted before appeal is made to the courts.*

This point has been settled in this Court in *United States vs. Densmore* (C.C.A. 9th), 58 F.2d. 748, in which this Court says:

"One of the obvious purposes of the legislation with regard to disagreement upon a claim by a veteran is to require the veteran to exhaust his remedies in the department before bringing suit. His right to bring suit is conditioned upon his having done so. The statute provides that the final

decision of any division, bureau, or board in the veterans' administration shall be subject to review on appeal by such administrator. 46 Stat. 1016, ch. 863, section 2 (38 U.S.C.A. § 11a)"

The rest of the Court's opinion is embodied in the opinion of the Court in *Simmons vs. United States*, 110 F.2d. 296, the Court saying:

"... The first provision, in Section 445, requiring denial by the Administrator on appeal, 'has for its purpose the establishment of a definite rule that before suit is brought a claimant must make a claim for insurance and prosecute his case on appeal through the appellate agencies of the bureau before he shall have the right to enter suit.' Report of the Senate Finance Committee, set out in *United States vs. Densmore*, 9 Cir., 1932, 58 F.2d. 748, 750. This section, we take it, was intended to insure the application of the general rule of jurisdiction that administrative remedies must be exhausted before appeal is made to the courts

"(5-7) Obviously the broader definition of 'disagreement' in Section 445c, *supra*, did not repeal the earlier provision, nor did it abrogate claimant's right to administrative appeal. The effect of the amendment was, as we have applied it, to start the limitation running again from the time when the claim is denied by one with designated authority. However, if the claimant duly prosecutes his claim through proper administrative appeals, this time would not fall within the six year limitation period; but if no action is in fact taken by the claimant, the mere right to appeal does not prevent or toll the running of the statute of limitations."

- (B) *Further, the statutory provision of Paragraph (5), § 802 (d) (3) (B), 38 U.S.C., operates as qualifying and supplying exception to the general rule of limitation, where the general and the specific are in apparent conflict.*

We respectfully submit: Where the legislature has provided a statutory remedy (Paragraph (5), § 802 (d) (3) (B), 38 U.S.C.) which supplants in part a corresponding general statutory remedy (in this case, on the matter of time) § 445, 38 U.S.C., and has incorporated thereto a period of time for filing a valid claim, the denial of which would have given the claimant the right of action, which is different from the time provided in § 445, there is presented the situation of a conflict between the two provisions, and the provision of Paragraph (5), § 802 (d) (3) (B), being specific and the proper section sued under for this type of insurance benefits in question, should prevail.

This principle is long-settled in Anglo-American law. In the case of

Townsend vs. Little, 109 U.S. 504, 512, 3 S.Ct. 357, 27 L.ed. 1012.

“According to the well-settled rule, that general and specific provisions, in apparent contradiction, whether in the same or different statutes, and without regard to priority of enactment, may subsist together, *the specific qualifying and supplying exceptions to the general, . . .*” (as italicised in Territory of Alaska vs. American Can Company, 246 F.2d 496).

- (1) *Rules of construction should give effect*

to legislative intent, one portion of statute should not annul that granted by another.

We further respectfully submit that in incorporating § 445, 38 U.S.C., by reference in § 817, 38 U.S.C., and stating that suit may be brought upon a claim subject to the conditions under the provisions of § 445, Congress did not intend to annul the legal right it has conferred for filing a valid application for a claim in Paragraph (5), § 802 (d) (3) (B), 38 U.S.C. It had not been intended by Congress to allow, on the one hand, the filing of an application valid when filed within 7 years, which necessarily pre-supposes a suit in court dependent upon the rejection of the claim through its final denial upon an administrative appeal, including the suspension of the statute of limitation during the whole period that the claim is held in the Veterans' Administration, and then to take it away with the strict and narrow construction of the six-year limitation in § 445. That would amount to giving a loaf of gratuitous bread with one hand and taking it away from the mouth with the other.

Rather, we maintain, that Congress intended the Court to give the statute some effect, if possible, within the plain meaning and intention of the legislature which enacted Paragraph (5), § 802 (d) (3) (B), 38 U.S.C., according to the well-settled principles of statutory construction, as the Supreme Court observed:

“But it is among the elementary principles with regard to the construction of statutes, that every section, provision, and clause of a statute shall be expounded by a reference to every other; and if possible, every clause and provision shall avail,

and have the effect contemplated by the legislature. One portion of a statute should not be construed to annul or destroy what has been clearly granted by another. The most general and absolute terms of one section may be qualified and limited by conditions and exceptions contained in another, so that all may stand together."

Peck vs. Jenness, 7 How. (U.S.) 612, 623, 12 L.ed. 841, reversing *In Re Bellows*, Fed. Cas. No. 1, 278, 3 Story 428.

And we further submit as an accepted principle of statutory construction that an act which adopts by reference whole or portion of another statute adopts it not only as it exists at the time of adoption, but also includes subsequent additions or modifications of statute, where legislative intent so to do is clearly expressed or implied. And that the principle is applicable to the statutes in question.

Surich General Acc. And L. Ins. Co., vs. Industrial Com'n, 163 N.E. 466.

So, therefore, appellant's claim for the benefits of automatic gratuitous insurance policy covering the insured serviceman, Priscillano Estil Praidó, who was killed in Bataan on April 3, 1942, filed on June 11, 1948, and valid under the provision of Paragraph (5), § 802 (d) (3) (B), 38 U.S.C., and held in the Veterans' Administration until finally rejected, upon administrative appeal, on January 8, 1958, and action brought in the District Court on February 24, 1958, is not barred since the limitation statute was suspended during the whole period that the claim was held in the Veterans' Administration.

Danner vs. United States, (C.A. Iowa), 100 F.2d. 43;

United States vs. Stand, (C.A. 10th Okla.), 102 F.2d. 472.

In the DANNER case, *supra*, the Court says: "We follow the opinion in the Howard Case, cited *supra*, and agree with its conclusion that the 'limitation was suspended during the whole period that the claim was held in Veterans' Administration' (Page 989)"

In the Howard vs. United States, 97 F.2d 987, the Court held that

"... Section 445c extended the definition of the term 'disagreement' to include denial of the claim by any subordinate body of the Veterans' Administration but in no way abrogated the right of appeal to the Administrator, including the right of review by the Board of Veterans' Appeals, nor the suspension of limitation for the period between filing of the claim and its denial by the Administrator. We conclude this

"(1) Because Section 445c itself expressly defines a disagreement as being denial by the Administrator; and

"(2) Because this construction is reinforced by the administrative interpretation of the act.

"Upon the first point appellee's contention that the limitation is not suspended on the appeal to the final body within the administration ignores the fact that Section 445c defines a disagreement not only as a denial by a subordinate agency, but also as denial by the Administrator. The same

jurisdictional prerequisite for suit in the District Court then exists on denial by the final administrative body as on denial by the subordinate body.

“Upon the second point the official body which drafted Section 445c interpreted it after its enactment as if appeal to the final body still suspended the limitation.

“Pursuant to statutory authority, Section 426, Title 38, U.S.C., 38 U.S.C.A. Section 426, the Administrator on September 4, 1934, promulgated certain rules and regulations governing appeals from decisions by Insurance Claims Council. Section 3107 of the rules provided: ‘An application for review on appeal filed with any activity of the administration prior to the expiration of one year period will be accepted as having been filed within the time limit.’ This rule was not changed after Section 445c was enacted.

“Appellant followed the procedure outlined under these rules and appealed to the Administrator because he wished to exhaust his administrative remedies before resorting to an expensive trial in court. Cf. *Fouts v. United States*, 5 cir., 67 F 2d 249. . .

“... In view of our construction of Section 445c, it follows that the limitation was suspended during the whole period that the limitation was suspended during the whole period that the claim was held in the Veterans’ Administration, namely, from September 11, 1930, to July 13, 1936, and appellant’s action was timely.”

Upon the principles set forth and discussed and applied to the facts and the provisions of the statute,

the court should have found that plaintiff-appellant's action is not barred by the statute of limitations, and that it erred in vacating the order of September 29, 1958, denying defendant's motion to dismiss and in granting it as of October 21, 1958. The court was correct, on the first place, and should not have change of heart.

THIRD POINT

The fact of appellant's legal disability by reason of her residence in the Philippines during the hostilities between the United States and Japan, being necessarily implied in, or is reasonably to be inferred from, allegations, is as much part of such pleading as what is expressed and need not be formally alleged. Neither the inference, nor the presumption of law need be pleaded by the plaintiff-appellant. And, as a matter of that, an allegation in the complaint that six years have not elapsed since accrual of the right of action is sufficient, upon the court's construing the provisions of § 445, 38 U.S.C., on the matter of claimant's legal disability, as against defendant's motion to dismiss by reason of the statute of limitations.

Applying the law of the six-year limitation upon the facts of the case at Bar, under the strict construction of the provisions of § 445, 38 U.S.C., we shall come to the same results that appellant's action is not barred by the statute of limitations.

Preliminary considerations

Section 445, 38 U.S.C., incorporated by reference by § 817, 38 U.S.C., authorizing suits against the United States "In the event of disagreement as to

claim. . . under a contract of insurance between the Veterans' Administration and any person or persons claiming thereunder," provides, in pertinent part, as follows:

" . . . no suit on United States Government life (converted) insurance shall be allowed under this section unless the same shall have been brought within six years after the right accrued for which the claim is made; *Provided*, That for the purposes of this section it shall be deemed that the right accrued on the happening of the contingency on which the claim is founded; *Provided further*, that this limitation is suspended for the period elapsing between the filing in the Veterans' Administration of the claim sued upon and the denial of said claim by the Administrator of Veterans' Affairs. Infants, insane persons, or persons rated as incompetent or insane by the Veterans' Administration shall have three years in which to bring suit after removal of their disabilities. . . ."

(A) *It has been settled by the United States Supreme Court that residents of the Philippines were persons under legal disabilities during the period of hostilities between the United States and Japan in the case of Soriano vs. United States, 352 U.S. 276, 77 S. Ct. 275, affirming, the Court says:*

"After issuance of the writ in this case, the Court of Claims in *Compania Maritima v. United States*, Ct Cl, 145 F Supp 935 (1956), held that a Philippine resident seeking redress against the United States was under a legal disability while hostilities between Japan and the United States continued. The court further held that the claim of such person must be filed within

ERRATA

APPELANT'S Main Brief

Page 21, quotation starting at line 19 read: "In
a statute referred to are taken."

Page 34, line 17, insert, between "insane persons"
and "or persons" the following: "or persons
under other legal disability,"



three years 'after the disability ceases, i.e. by September 2, 1948.'

The appellant is a native of the Philippines and resided in it all her life until she immigrated to the United States in 1957,—a fact particularly within the knowledge of defendant's Immigration And Naturalization Department and the Secretary of State. The fact of her residence and that of her initiating and prosecuting her claim with the defendant's Veterans' Administration offices in Manila and Washington are matters in possession and within knowledge of defendant. The fact of the war with Japan, the Japanese occupation of the Philippines, the surrender of the United States armed forces and the non-existence of United States courts and civil administration are within the knowledge of defendant as well as within judicial knowledge, including the fact that only few Filipinos, that of the president of the Philippine Commonwealth and Hon. Carlos Romulo, ever got out of the Philippines during the war. All material informations concerning the insured are in possession of defendant, and of his relation with appellant. His entry in the armed forces of defendant in the Philippine Islands is contained in the stipulation of the parties. TR—14.

Allegations in appellant's amended complaint contains facts from which could be inferred or implied facts of her residence in the Philippines during the happening of the contingency being sued for and while she was prosecuting her claim with the Veterans' Administration. TR—3-8. Documents referred to or letter referred to in allegations in the amended complaint contains facts of appellant's residence in the Philippines. TR—6-7; Exhibit A, TR—21.

Paragraph XIII in the amended complaint alleges that "Six years have not elapsed since accrual of the right for which claim is made in this action."

Under the foregoing facts, the question now is: whether appellant need have pleaded formally facts constituting her legal disability for being a resident of the Philippines to raise the matter of legal disability before the trial court for consideration in construing the provisions of § 445, 38 U.S.C., on the government's motion to dismiss by reason of the statute of limitations?

It would seem that the fact of the residence of a native of the Philippines at the time of the hostilities between the United States and Japan need not be formally pleaded where the pleading has averred facts from which the whereabouts of appellant are necessarily implied. What is clearly implied is as much a part of a pleading as what is expressed.

Daniels vs. Tearney, 102 U.S. 415, 26 L. ed. 187;

The view of courts in this jurisdiction seems well settled as tersely expressed in *Robinson vs. F. W. Woolworth*, 261 P. 253, as follows:

"Whatever is necessarily implied in or is reasonably to be inferred from an allegation is to be taken directly averred. *Marcellus v. Wright*, 51 Mont. 559, 154 P. 714."

In the case of *Grant vs. Nihill*, 210 P. 914, the court says:

"It is equally well settled that, as against an attack for lack of substance, and in the absence

of a special demurrer or motion, whatever is necessarily implied in, or is reasonably to be inferred from, an allegation, is to be taken as directly averred."

"It is apparent, of course, that when a specific fact need not be proved by plaintiff, an allegation in that connection is rather an empty formality. And it would seem reasonable, in order to avoid such empty formality, that when facts are pleaded from which the presumption arises, these facts might well be provisionally accepted as true, until denied, so as to give rise to the presumption at that stage. And so it is held, for it is stated in 49 C.J. 39 that 'there need be no direct allegation of fact which is necessarily implied from other averments, and presumptions of law need not be pleaded, even, it has been held, though they are *prima facie* only.' Rosenblum vs. Sun Life Assur. Co. of Canada, 65 P. 2d. 399, 403, 51 Wyo. 195.

The American Jurisprudence, 41 AM. JUR. §10, states:

"A pleading which avers facts from which the laws presumes another fact sufficiently pleads that other fact. What is clearly implied is as much a part of a pleading as what is expressed. Like a presumption of law, an inference need not be pleaded."

Applying the rule that, where facts are pleaded from which an ultimate fact must result, then it is not necessary to specifically plead such fact—

Sawyer Store vs. Mitchell, 62 P. 2d. 342;

Kershaw vs. Merchant's Bank, 40 Am. Dec. 70;

Grant vs. Nihill, 210 P. 914, 64 Mont. 420;

that is, where facts are pleaded from which the ultimate fact of appellant's legal disability must result, then it is not necessary to specifically plead such fact, and the conclusion is unescapable then that appellant is, by reason of her residence in the Philippines at all times her right of action was in existence, a person under a legal disability.

Allegations in paragraphs VIII, IX, and X, in the amended complaint, referred to claim applications, letters, affidavits which are in the possession of defendant and which contain facts from which may be drawn the ultimate fact of claimant's legal disability by reason of her residence in the Philippines at the times in question. Whatever then is reasonably to be inferred from such facts are to be taken as directly averred.

"A fact may appear (from the allegations of a pleading) by inference as well as by direct allegation." *United Bank & Trust Co. vs. Fidelity & Deposit Co.*, 204 Cal. 460, 268 P. 907, 909.

We submit, as apt, on this point, the general rule stated in the *American Jurisprudence*, 41 AM. JUR. § 86, which is as follows:

All the facts necessary to establish the fact of, legal disability of the claimant are peculiarly in the possession of the defendant not only with the administrative agency concerned in this claim but also with the Immigration and Naturalization, the Secretary of State, and the War Department.

Matters within the knowledge of the other party, therefore, may be omitted entirely. *Kritzer vs. Lancaster*, 214 P. 2d. 407; *Brea vs. McGlashan*, 39 P. 2d. 877, 3 Cal App. 2d. 454.

In the case of the vessel, *The Algie*, 56 F. 2d. 388, the court says:

“There is an old rule of evidence quite apropos here, to the effect that, where evidence is peculiarly within the knowledge and control of one party and it is not produced and no explanation offered as to why it is not produced, it would have been detrimental to the party producing it.”

It is the further contention of appellant that as against the government's motion to dismiss, allegation in the amended complaint that “Six years have not elapsed since accrual of the right for which claim is made in this action,” is sufficient for the court, in construing the statute of limitations provisions in § 445, 38 U.S.C., to take into account appellant's legal disability from matters alleged in the amended complaint and other facts in the record, together with the historical facts and circumstances of that particular war with Japan without allegations of such facts and read the pleading along with such matters of judicial notice.

“It is settled that facts of which judicial notice is taken need not be pleaded; the courts in the consideration of a pleading will read it as if it contained a statement of all such matters.” 41 AM. JUR. § 9.

In re Bowling Green Milling Co., C.C.A. Ky.,
132 F.2d. 279;

Dallard vs. McKnight, 209 P.2d. 387, 34 Cal. 2d.
209;

United States ex. rel Altieri vs. Flint, 54 F. Supp. 889;

Arnold vs. Universal Oil Land Co., 114 P.2d. 522.

(B) In any case, *"The rule was established at an early date, and frequently has been reiterated, that the operation of the statute of limitations is suspended between the citizens of two countries at war, while such war continues, it being declared that the suspension is so absolute that courts of justice will not even grant a commission in an enemy's country."* 34 AM. JUR. § 243.

Hanger vs. Abbot, 6 Wall. (U.S.) 532, 534;

Capertown vs. Bowyer, 14 Wall. (U.S.) 216, 20 L.ed. 882;

United States vs. Wiley, 11 Wall. (U.S.) 508, 20 L.ed. 211

Ross, Administrator, vs. Jones, 22 Wall. (U.S.) 576, 22 L.ed. 730.

The Philippines were under Japanese enemy occupation after the Bataan battle in which the insured serviceman was killed up to the time of liberation in 1945—facts of history and common knowledge. The accrual of the right of action of claimant arose about that time, on April 3, 1942, on death of insured. The statute of limitations did not run during the progress of the war. The Court in Ross vs. Jones, *supra*, says:

"Statute of limitation did not run against suitors having a right to sue in the Federal courts."

The principle underlying the suspension, even though not provided in the statute, is well expressed in *Hanger vs. Abbott*, *supra*, the Court saying:

“Absolute suspension of the right, and prohibition to exercise it, exist during war by the law of nations, and if so, then it is clear that peace cannot bring with it the remedy if the war is of much duration, unless it also be held that the operation of the statute of limitation is also suspended during the period the creditor is prohibited, by the existence of the war and the law of nations, from enforcing his claim. Neither laches nor fraud can be imputed in such a case, and none of the reasons as to which the statute is founded can possibly apply, as the disability to sue becomes absolute by the declaration of war, and is a conclusion of law. . . .”

Since the hostilities ceased on the conclusion of the treaty of Peace with Japan on September 2, 1945, the statute of limitations started to run on this date. Six years from the date of the treaty of peace would have given claimant up to September 2, 1951, to file suit.

Whether under the “legal disability” exception proviso of § 445, in which a claimant has up to September 2, 1948, to file suit upon a claim, or whether up to September 2, 1951, the appellant on filing her claim with the Veterans’ Administration on June 11, 1948, had thereby effected the suspension of the statute from then on and up to its final denial by the Veterans’ Administration in a letter dated January 8, 1958, (TR—22-23), or on her receipt of it three days later.

“Provided further, that this limitation is suspended for the period elapsing between the filing in the Veterans’ Administration of the claim sued upon and the denial of said claim by the Administrator of Veterans’ Affairs. Infants, insane persons, or persons under other legal disability, or persons rated as incompetent or insane by the Veterans’ Administration shall have three years in which to bring suit after removal of their disabilities. . . .” § 445, 38 U.S.C.

If September 2, 1948, would have been the last day for appellant to bring her suit, and, when she filed her claim with the Veterans’ Administration on June 11, 1948, the running of the statute of limitation was suspended, she has then 2 months and 22 days left before the period of limitation would have run out. If the statute again begins to run three days after she received the letter of January 8, 1958, she is still within time when she brought action on February 24, 1958, having that 2 months and 22 days left over when the running of the statute was suspended. As a matter of fact appellant has much time layway, since Section 445d provided, as follows:

“In addition to the suspension of the limitation for the period elapsing between the filing in the Veterans’ Administration of the claim under a contract of insurance and the denial thereof by the Administrator of Veterans’ Affairs or someone acting in his name, the claimant shall have ninety days from the date of mailing of notice of such denial within which to file suit. . . . Provided, That on and after June 29, 1936, notice of denial of the claim under a contract of insurance by the Administrator of Veterans’ Affairs,

or someone acting in his name shall be by registered mail directed to the claimant's last address of record."

We submit, therefore, that the lower court erred in not finding for the plaintiff that, where the amended complaint alleges that six years has not elapsed since accrual of the right for which claim is made in this action and raised for the consideration of the court the matter of her legal disability by reason of her residence in the Philippines during the period of the existence of her right of action, the statute of limitations having been suspended during the period her claim was held in the Veterans' Administration up to January 8, 1958, the action, brought on February 24, 1959, is not barred by the statute.

CONCLUSION

The intent of Congress, in providing for filing a claim for this particular automatic gratuity life insurance benefits with the Veterans' Administration within seven years valid, clearly indicates that a claimant should have a right of action when such claim filed within the seven years is rejected by the administrative agency, since a claimant could not sue at all in any court for a claim until she has prosecuted her claim through the Veterans' Administration. And since on filing such claim with the administrative agency suspends the running of the statute of limitation during the period the claim is held in the Veterans' Administration, a suit brought upon such claim before the unexpired remaining time when the statute was suspended is not barred by the statute of limitations. Otherwise, the evident intent

of Congress in Paragraph (5), § 802 (d) (3) (B), 38 U.S.C., shall be emasculated if not annulled.

The construction of said provision of the statute in conjunction with the conditions provided in § 445, 38 U.S.C., must need piecing together in harmony and giving its manifest purpose a sensible and reasonable effect, the specific qualifying the general as to make them jibe within the language and meaning of the statute.

Courts, have time and again, cautioned against an ironclad construction of Section 445 when such canon of construction would violate an obvious purpose of Congress (*March vs. United States*, C.C. Va., 97 F.2d. 327). Courts further say that although provisions of sections permitting suits against the government must be strictly complied with, this section (§ 445) should be construed in favor of claimant on question whether it has complied with whenever possible in borderline cases. (*Blanton vs. United States*, 17 F. Supp. 327). Appellant has complied with the requirements and prosecuted her claim as provided by law. Even as under the six-year provision of § 445, as qualified and limited by the expressed provisions of its exceptions and suspension during the period the claim was held in the Veterans' Administration, appellant's action is not barred.

The Congress, if we may be indulged a bit of recollection, passed the legislation granting automatically gratuitous life insurance policies to its beleaguered fighting men at a time when at the country's time of crisis, it had its back against a wall and its armed forces faced either giving quarters or annihilation. If ever the patriotic glow and warmth may have simmered down in our time of comparative

security, in the Supreme Court abides yet the memory and remembers when it says:

“Congress through war risk insurance legislation has long sought to protect from financial hardship the surviving families of those who had served under the nation’s flag.”

United States vs. Henning, 344 U.S. 66,
71, 73 S.Ct. 114, 97 L. ed. 10;

United States vs. Vandver, 232 F. 2d.
398;

Thomas vs. United States, 189 F.2d. 494;

United States vs. Zazove, 334 U.S. 602,
68 S. Ct. 1284, 92 L. ed. 1601.

For the reasons assigned, appellant respectfully pray that this Honorable Court reverse the orders and judgment of the District Court for the district of Arizona, and, if this Court finds that the parties by their pleadings have mutually admitted and submitted as in a stated case the facts set forth in the amended complaint and in the stipulations and that there is no further material fact requiring further trial, to award and grant the relief prayed for in the amended complaint.

Respectfully submitted,
JOSE DEL CASTILLO
Attorney for Plaintiff-Appellant.

Jose del Castillo
Attorney at Law
221 North Church Avenue
Tucson, Arizona

No. 16345

IN THE
United States
Court of Appeals
For the Ninth Circuit

GERMANA E. PRAIDO DEL CASTILLO,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

BRIEF FOR THE APPELLEE

Upon Appeal from the United States District Court for
District of Arizona.

JACK D. H. HAYS

United States Attorney

For the District of Arizona

MARY ANNE REIMANN

Assistant U. S. Attorney

Attorneys for Appellee.



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Upon Appeal from the United States District Court for
District of Arizona.

BRIEF FOR THE APPELLEE

INTRODUCTION

Appellant, Plaintiff below, will be designated as Appellant herein. The United States of America, Defendant below, will be designated as the Government.

The Transcript of Record will be abbreviated (TR).

REPORT OF OPINION BELOW

There was no written or oral opinion delivered by the Honorable James A. Walsh, United States District Judge, presiding. The Order granting the Government's Motion to Dismiss was based on briefs and oral arguments made by counsel for both parties.

JURISDICTION

The Appellant brought this action in the Federal District

Court after a denial of her claim for gratuitous National Service Life Insurance benefits (TR 21) by the Veterans Administration.

38 U.S.C. 817, which incorporated by reference 445, gave the District Court jurisdiction.

28 U.S.C. 1291 gives this Honorable Court jurisdiction over appeals from all final decisions of District Court. The Judgment entered December 12, 1958, is a final decision. (TR 40).

STATEMENT OF FACTS

On February 24, 1958, Appellant filed her Complaint followed by the filing of an Amended Complaint on May 6, 1958. (TR 3 - 9).

Appellant's Complaint (Count No. 1) prayed for full benefits due and payable under 38 U.S.C. 802 for automatic gratuitous life insurance. (TR 9). Appellant's Complaint (Count No. 2) also requested benefits due and payable under death gratuity compensation as provided in 38 U.S.C. 1131 - 1134. (TR 9). Count No. 2 was dismissed by Stipulation on August 26, 1958. (TR 24).

Government filed a Motion to Dismiss for lack of jurisdiction and failure to state a claim upon which relief can be granted. (TR 13).

For use in preparing and arguing this Motion the following Stipulation of Facts were entered into by the parties (TR 13):

1. Prescillano E. Praid entered service with the Armed Forces of the United States in the Philippine Islands on September 1, 1941. He was killed on April 3, 1942;

2. VA Form 1557, a claim for gratuitous National Service Life Insurance, was signed by the plaintiff on April 29, 1948, and filed with the Veterans Administration on June 11, 1948;

3. Plaintiff filed a claim for death compensation benefits, which claim was disallowed on September 10, 1952. Plaintiff

filed an appeal from the disallowance of her compensation benefits which appeal was denied by the Board of Veterans Appeals.

On August 15, 1958, Appellant filed a Cross-Motion for Summary Judgment, And In Opposition to Motion to Dismiss with accompanying Affidavits and Exhibits attached thereto. (TR 16-23).

Government filed Motion in Opposition to Cross-Motion for Summary Judgment. (TR 25).

On September 29, 1958, the Court entered an Order denying Government's Motion to Dismiss and denying Appellant's Cross-Motion for Summary Judgment. (TR 26).

On October 21, 1958, the Court entered an Order vacating the Order of September 29, denying the Government's Motion to Dismiss and further ordered that Government's Motion to Dismiss is granted, (TR 27).

Appellant filed Motion to file an additional Amended Complaint and Motion to Alter to Amend Judgment. (TR 28).

Government filed Motion in Opposition to Appellant's Motion for Leave to File Amended Complaint and Motion to Alter or Amend a Judgment. (TR 38).

Appellant's Motion for Leave to File Second Amended Complaint was denied by Order of Court on December 1, 1958. (TR 39).

Judgment was entered on December 12, 1958, that Appellant take nothing by her Amended Complaint and that same be dismissed. (TR 40).

Many of the facts set forth in Appellant's Statement of Facts are evidentiary matters that the Government feels have no place in this appeal, which is based on a jurisdictional question. (Appellant's Brief, pages 7, 8, 9). We are, therefore, not referring to same in our statement and by so doing are not admitting or conceding in any way that these facts are true as set forth therein.

ARGUMENT OF SPECIFICATION OF ERROR I.

The Government filed its Motion to Dismiss for the reason that the District Court did not have jurisdiction and that Appellant failed to state a claim (TR 13) basing the Motion on the Stipulation of Facts and facts set forth in the Appellant's Amended Complaint. The only theory the Government relied on in its motion was a jurisdictional question as to whether or not the suit was barred by the statute of limitations. This is best shown in the Transcript of Government's Motion in Opposition to Motion for Leave to File Amended Complaint (TR 38):

"That the proposed Amended Complaint, the granting of which is in the discretion of the Court, would not cure the jurisdictional defect of the First Amended Complaint heretofore dismissed by the Court, in that the plaintiff's claim for gratuitous insurance benefits is barred by the limitation provisions of Title 38 U.S.C. 445, incorporated by reference in Section 817 of the same Title and made applicable to suits for recovery of National Life Insurance benefits."

The brief filed by the Government in support of its Motion to Dismiss and the oral argument made by the Government's counsel discussed only this jurisdictional question. When the Government based its Motion in part on the Appellant's Amended Complaint it was referring only to the facts that would relate to this jurisdictional question. However, if there was any misunderstanding on behalf of counsel for Appellant concerning this question it was clarified by Government's Motion in Opposition to Appellant's Cross-Motion for Summary Judgment (TR 25) in which the Government states as follows:

"The attorney for the plaintiff herein states as a fact in his Motion that the plaintiff was the last person to stand in *locos parentis* to the deceased serviceman. If the Motion to Dismiss, filed by the Government, is denied this question is a genuine issue to a material fact which must be determined by the Court. Exhibit (A) and (B) attached to plaintiff's Motion plainly shows a dispute on this point. A Motion for Summary Judgment should, therefore, not be granted since a genuine issue of fact material to the dispute by the parties exists.

Federal Rules of Civil Procedure, Rule 56 (c)."

We sincerely regret the misunderstanding of Appellant's counsel on this matter but feel there can be no question that at the time set for oral argument the Appellant was well informed as to the Government's position by the above Motion and by a discussion of the matter before the Court.

ARGUMENT II.

The Appellant's claim for gratuitous Insurance benefits is barred by the limitation provisions of Section 445 of Title 38 U.S.C., incorporated by reference in Sec. 817 of the same Title and made applicable to suits for recovery of National Service Life Insurance.

38 U.S.C. 802 (d) (5) relied upon by the Appellant is not a jurisdictional statute but rather one which precludes the Veterans Administration from administratively allowing a claim for such benefits unless it is filed in the Veterans Administration within seven (7) years following the death of the serviceman. It is Section 445 of Title 38 U.S.C. which grants jurisdiction to the

District Courts to hear and determine *suits* against the United States for gratuitous insurance benefits and this section prescribes a *six year* period of limitations.

The legislative history of 38 U.S.C.A. 802 (d) (5) shows that originally only one year was allowed in which claim could be filed with the Veterans Administration. In 1944 this subsection was amended to allow five years in which to file a claim, and in 1948 it was again amended to extend the period for filing a claim from five to seven years. S. Rep. 902, 80th Cong., accompanying the bill effecting this latter change makes it clear that Congress had in mind the situation of claimants, such as the Appellant, who resided in the Philippine Islands. It is significant, that although Congress twice extended the time in which claims could be filed with the Veterans Administration, it did not see fit to extend the period allowed for bringing suit in the District Courts. Had Congress intended to give an additional period of time in which to bring such actions, it would have provided therefor by specific legislation, and Congress was entitled to assume that the limitation period it prescribed meant just that period and no more. *Soriano v. United States*, 352 U.S. 270, 276. Compare *United States vs. Sherwood*, 312 U.S. 584, 590, 591, wherein the Court stated:

“*** Congress has passed specific legislation each time it has seen fit to toll such statutes of limitations, and conditions upon which the Government consents to be sued *must be strictly observed and exceptions thereto are not implied.*” (Emphasis supplied).

The case of *De Yaranon v. United States*, 152 F. Supp. 644, is a case similar to the one herein involved wherein the Court considered the application of the limitation provision of 38 U.S.C.

445 and dismissed the plaintiff's Complaint for want of jurisdiction. Additional citations supporting this proposition are:

Lynch vs. United States, 80 F. 2d. 418 (C.A. 5), cert. den. 298 U.S. 658;

Morgan vs. United States, 115 F. 2d. 427, (C.A. 5), cert. den. 312 U.S. 701;

Goldsborough vs. United States, 31 F. Supp. 93.

The Appellant's claim was not filed with the Veterans Administration until June 11, 1948 (TR 14), more than six years after the happening of the contingency upon which the claim was founded, that is the death of her brother on April 3, 1942. (TR 14).

38 U.S.C. 445 provides for a suspension of the running of the limitation period during the time elapsing between the filing in the Veterans Administration of the claim for insurance benefits and the final administrative denial of the claim by that agency. However, as above indicated, in the instant case, the serviceman died on April 3, 1942, (TR 14) and claim for the gratuitous insurance benefits was not filed with the Veterans Administration until June 11, 1948, (TR 14), more than six years later. Therefore, even at the time that the claim was filed, the limitations period had run, and no suit in the Federal District Court could thereafter be brought. Congress was aware of the need for more time to allow beneficiaries in the Philippine Islands to apply for the benefits provided for by 38 U.S.C. 802 (d) (5), and Congress could have also extended the time in which suit could be filed. The fact that Congress did not see fit to extend the limitations period, but only the time within which a claim could be filed with and paid administratively by the Veterans Administration, can mean only that it intended that the period in which suit could be filed for National Service Life Insurance benefits should be six years and no more. The claimant's right to sue is

subject to such conditions as Congress sees fit to impose, including restrictions as to time, place and manner of suit.

Reid vs. United States, 211 U.S. 529; 29 S. Ct. 171; 53 Law Ed. 313;

United States vs. Sherwood, *supra*;

Munro vs. United States, 303 U.S. 36; 58 S. Ct. 421; 82 Law Ed. 633;

Dalehite vs. United States, 346 U.S. 15; 73 S. Ct. 956; 97 Law Ed. 1427.

ARGUMENT III.

The Japanese occupation of the Philippine Islands did not toll the running of the statute of limitations.

This exact question is decided in the case of *Soriano vs. United States*, 352 U.S. 270 at 275, 276: The Appellant also quotes this case in support of the proposition that the existence of hostilities during the Japanese occupation of the Philippines did toll the statute of limitations. However after a careful reading of the case there can be no question that the case stands for the exact reverse of the Appellant's contention. On page 275 we quote from the Court's opinion in the *Soriano* case, *supra*:

“***. The cause of action as alleged by petitioner was for just compensation for supplies, etc., taken from him by guerrillas during the Japanese occupation of the Philippines. He alleges in his complaint that the action, if any he has, accrued at the time of the taking and could only be maintained within six years thereafter but for the existence of the hostilities which he claims tolled the statute. He depends on *Hanger vs. Abbott*, 6 Wall. 532 (1868), to sup-

port this position. Such reliance is misplaced. That case involved private citizens, not the Government. It has no applicability to claims against the sovereign.

See *Haycroft vs. United States*, 22 Wall. 81 (1875).

To permit the application of the doctrine urged by petitioner would impose the tolling of the statute in every time-limit-consent Act passed by the Congress. For example, statutes permitting suits for tax refunds, tort actions, alien property litigation, patent cases, and other claims against the Government would all be affected. Strangely enough, Congress would be required to provide expressly in each statute that the period of limitation was not to be extended by war. But Congress was entitled to assume that the limitation period it prescribed meant just that period and no more. With this intent in mind, Congress has passed specific legislation each time it has seen fit to toll such statutes of limitations because of war. And this Court has long decided that limitations and conditions upon which the Government consents to be sued must be strictly observed and exceptions thereto are not to be implied. *United States vs. Sherwood*, 312 U.S. 584, 590-591 (1941), and cases there cited."

CONCLUSIONS

38 U.S.C. 445 grants jurisdiction to the District Court to hear and determine suits against the United States for gratuitous insurance benefits and a six-year period of limitations is set forth therein. The law is well settled that the time limitation is a con-

dition precedent to the Court's jurisdiction.

The Japanese occupation of the Philippine Islands did not toll the running of the statute of limitations.

It is respectfully submitted that the Court Order in granting Government's Motion to Dismiss for lack of jurisdiction was correct since the six-year period of limitations had run prior to the time the original claim was filed with the Veterans Administration, and the Government respectfully requests that this Court affirm the ruling made by the Trial Court.

Respectfully submitted,

JACK D. H. HAYS

United States Attorney
District of Arizona

MARY ANNE REIMANN

Assistant U. S. Attorney

Attorneys for Appellee.

No. 16345

United States
Court of Appeals
for the Ninth Circuit

GERMANA E. PRADO DEL CASTILLO,
Appellant,
vs.
UNITED STATES OF AMERICA,
Appellee.

REPLY BRIEF OF APPELLANT

**Appeal from the United States District Court
for the District of Arizona**

JOSE DEL CASTILLO
Attorney for Appellant.

JOSE DEL CASTILLO
221 North Church Avenue
Tucson, Arizona

FILED



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No. 16345

United States
Court of Appeals
for the Ninth Circuit

GERMANA E. PRADO DEL CASTILLO,
Appellant,
vs.
UNITED STATES OF AMERICA,
Appellee.

REPLY BRIEF OF APPELLANT

This reply brief is going to be concise, since Appellee in its brief has confined its arguments to the points we raised in our opening brief, except its third argument. It seems necessary only to examine a few of Appellee's statements and supporting authorities and to deal with its third argument.

The roman numeral headings of the present reply brief are keyed to the points argued in our main brief, and also to the arguments in Appellee's brief.

I

The Government, in a court of law, is governed by the rules of procedure like any other litigants. *United States v. Alexander*, 47 F. Supp. 900.

In view of Government's statement concerning its "regret the misunderstanding of Appellant's counsel on this matter" of its motion to dismiss and the question it raised, we are per force compelled to register that we are aggrieved.

Appellant's counsel respectfully submits the record to speak for itself and the rules of law provided for. If interpreting the rules as this Court has so construed and applying it to facts stated by the Government is "misunderstanding," we have need of words to communicate the plain, common things to our senses. Our understanding, or otherwise, we submit to the determination of the Court as may be disclosed in Appellant's Argument, FIRST POINT upon our specification of error No. I, in our opening brief.

The Government had defined the field of controversy, set up the rules of the game, and took to bat. We, the Appellant, simply followed the rules and played the game accordingly. We have neither apologies to make, nor alibi to set forth.

II

We agree with Appellee's statement in its recital of the legislative history (Appellee's Br.-6) that "in 1948 it [38 U.S.C.A. 802 (d) (5)] was again amended to extend the period for filing a claim from five years to seven years. S. Rep. 902, 80th Cong., accompanying the bill effecting this latter change makes it clear that Congress had in mind the situation of claimants, such as the Appellant, who resided in the Philippine Islands." Our argument on this point is as Congress intended.

The main core of Appellee's second argument is the case of *De Yaranon vs. United States*, 152 F. Supp. 644, stating that said "case is similar to the

one herein involved wherein the Court considered the application of the limitation provision of 38 U.S.C. 445 and dismissed the plaintiff's Complaint for want of jurisdiction."

We definitely differ, and state that any similarity between the De Yaranon Case and the one at Bar is solely in the class of cases they belong to, as homosapiens residing in the Philippines may be said to be similar. In parallel columns, we shall show the obvious dissimilarity of the two cases:

<p>FACTS in De Yaranon case:</p> <p>From stipulated facts as pertinent: Plaintiff filed her claim with Veterans' Administration onFeb. 9, 1950</p> <p>The serviceman died on.....May 15, 1942</p> <hr/> <p>Period of time 7 yrs. 8 mos. 25 days</p> <p>Claim finally denied by Board Veterans' Appeals onDec. 23, 1952</p> <p>Complaint filed onMay 23, 1955</p> <hr/> <p>2 yrs. 5 mos.</p>	<p>FACTS in the case at Bar:</p> <p>Plaintiff filed her claim with Veterans' Administration on.....June 11, 1948</p> <p>The serviceman died onApril 3, 1942</p> <hr/> <p>Period of time 6 yrs. 2 mos. 9 days</p> <p>Claim finally denied on appeal to Board of Veterans' Appeals on Jan. 8, 1958</p> <p>Complaint filed on.....Feb. 24, 1958</p> <hr/> <p>47 days</p>
--	--

To start with, the De Yaranon claim was rejected by the Veterans' Administration for the reason that it was filed after seven years, which is too late for any purpose. Appellant's claim was not rejected on this point. TR—22-23.

Now let us check the above facts against the provisions of the law applicable, which are as follows:
Section 802 (d) (5) of Title 38 U.S.C. provides that:

"... no application for insurance payments under subsection (d) (2) or (3) of this section, shall be valid unless filed in the Veterans' Administration

within SEVEN YEARS after date of death of the insured . . . " (capitals supplied)

....In the event of any disagreement as to any claim arising under §802 (d) (3) (B)

" . . . no suit . . . shall be allowed . . . unless the same shall have been brought within six years after the right accrued for which the claim is made: Provided, That for the purposes of this section it shall be deemed that the right accrued on the happening of the contingency on which the claim is founded: Providedd further, That this limitation is suspended for the period elapsing between the filing in the Veterans' Administration of the claim sued upon and the denial of said claim by the Administrator of Veterans' Affairs. Infants, insane persons, or persons under other legal disability, or persons rated at incompetent or insane by the Veterans' Ad ministration shall have THREE YEARS in which to bring suit after the removal of their disabilities" 38 U.S.C. §§ 445, 817. (capitals supplied)

In the case of De Yaranon vs. United States, supra, the Court says:

"(3) Even if hostilities prevented plaintiff from filing her claim promptly after the death of the insured and this could be regarded as creating a "disability," the disability exception of the statute would not have extended the time for filing the action beyond September 2, 1948, three years after the termination of hostilities. Soriano v. United States, supra, 352 U.S. at page 276, 77 S. Ct. at page 273."

The facts in De Yaranon case checked against the law, we find that De Yaranon having filed her claim 7 years, 8 months and 25 days, after the death of her son, is too late in every point of law. The proposition of law advanced by this herein Appellant in our main brief under the Second Point would not ap-

ply to her, nor available in her case. Even if, as the Court in said case held, the hostilities between Japan and the United States created a "disability" under the disability exception of the statute quoted above extending the time of her filing her claim up to September 2, 1948, De Yaranon is still too late, having filed her claim on Feb. 9, 1950.

Such is not the case with the Appellant herein. Appellant filed her claim June 11, 1948, 2 months and 22 days within the extension of the statute of limitation as provided. On Appellant's filing, the statute of limitation was suspended, as provided, leaving her 2 months and 22 days before the time of filing of her action would have run out. Her claim was finally rejected by the administrative agency on Jan. 8, 1958; and she brought action on Feb. 24, 1958, that is, 47 days from date of final rejection or 45 days after receipt of it. Therefore, Appellant has brought her suit 37 days within the statutory limitation provided in § 445, 38 U.S.C.

That a Philippine resident at the time of the war with Japan was under a legal disability while the hostilities continued within the purview of such exception in § 445, 38 U.S.C. has been passed upon the United States Supreme Court. Another pertinent excerpt of the Court's opinion is to be found in Appellant's main brief at page 34-35. Such "disability" would have extended Appellant's time to bring her suit to September 2, 1948, had not her filing her claim on June 11, 1948, suspended the operation of the statute of limitation, as provided, leaving her 2 months and 22 days before her time would have run out. When the statute again began to run after Jan. 8, 1958, when she received the final rejection of her claim by the administrative agency, she filed her suit one month and a half later, with 47 more days to go before the deadline.

It is very clear we respectfully submit that Appellant has brought action on her claim within the stat-

ute of limitation under either of the propositions we urge in our main brief.

III

In dealing with Appellee's Argument III, which appears to be a new argument advanced rather than one controverting the third specification of error in Appellant's main brief, it seems to us that the Appellee, in bringing into its argument an opinion in the case of Soriano vs. United States, 352 U.S. 270, has completely missed the question involved.

The question decided in the portion of the opinion quoted by Appellee in said case has no connection with that raised by the facts and the statute under consideration in the case at Bar. The facts, the cause of action, and the statutes involved are different in the two cases.

Right off the first sentence of the opinion quoted by the Government the dissimilarity sticks out like a sore thumb, as follows:

"... The cause of action as alleged by petitioner was for just compensation for supplies, etc., taken from him by guerrillas during the Japanese occupation of the Philippines."

Whereas, the cause of action in the case at Bar is upon National Service Life Insurance, and of a special one, automatic free insurance, provided by a special legislation designed for a purpose. § 802 (d) (3) (B), 38 U.S.C., Paragraph (5) of same section. And the jurisdictional statute involved are: 38 U.S.C. 445, 445d, and 38 U.S.C. § 817. The opinion quoted by the Government did not pass upon these statutes, except conceded the period on "disability."

Whereas, in herein Appellant's claim, the statute (§ 445) provided that a claimant must first pursue and exhaust her administrative remedies, and required the existence of a disagreement as pre-re-

quisite to bringing an action and for a court taking jurisdiction, this is not so in the case of the Soriano claim for requisitioned provisions. Hence, the Soriano claim does not enjoy the suspension of the statute of limitation as provided in Section 445, nor the exceptions and extension provided in case of "Infants . . . or persons under other legal disability . . ."

For lack of such specific extension, expressly provided, the Soriano counsel attempted to develop the theory that the Japanese occupation of the Philippines tolled the statute of limitation. This theory was rejected by the Court, which stated that the *Hanger vs. Abbott*, 6 Wall. 532, could not support his position. The Government counsel appearing in the Soriano case urged in his brief that the principle of *Hanger vs. Abbott* is not applicable in the Soriano case as against the United States since it "can only be sued to the extent that consent has been expressly granted by statute." 1L. ed. 2d 1816.

Appellant herein made use of the opinion in *Hanger vs. Abbott*, among others, since, in the Appellant's cause of action, the government expressly provided its consent to be sued and upon certain terms. Among these terms is: "Infants, . . . or persons under other legal disability" has an extension of three years within which to sue after removal of their disability. Appellant in her main brief, THIRD POINT in the Argument, (B), tried to reach the same result that is discussed in (A) of same point, that is: that persons residing in the Philippines during the hostilities in our war against Japan were persons under legal disability during that period.

We quoted the Soriano case, the part in which the Court passed upon the "disability" created by the Jap hostilities upon persons residing in the Philippines (Appellant's Br.—34-35), and we herein quote more from the Soriano case, *supra*, at page 276, as follows:

" . . . Furthermore, even if hostilities prevented

petitioner from filing his claim and this condition could be regarded as creating a "disability," the claim would nonetheless be barred by the express terms of this statute because not filed within three after the cessation of hostilities, to wit, before September 2, 1948. . . ."

Here, again, is where the claimant in the Soriano case and the Appellant's herein differ. The Appellant filed her claim on June 11, 1948, within the statutory terms under § 445 as well as within the proviso of Paragraph (5), § 802 (d) (3) (B), 38 U.S.C. of seven years, as discussed more than once more fully heretofore. And we say again that on filing her claim, the statute was suspended from that day on to January 8, 1958, or three days thereafter. When it began to run again, before the remainder of her time could expire, Appellant brought suit on February 24, 1958.

The opinion of the Court in holding that the Japanese occupation created a "disability" to persons residing in the Philippines during the period of hostilities seems to us fair enough. For it is a judicial knowledge that until Gen. MacArthur returned and liberated the Philippines and hostilities ceased, the persons therein were really "disabled." The Congress in tendering to those fighting men by a special legislation, for a special patriotic purpose, an automatic free life insurance, knowing that the men fighting for the nation's flag and her honor would likely perish than survive, was designedly giving the indemnity for the benefit of the serviceman's beneficiaries. The insured's beneficiaries at the time it was given had six years under the statute within which to sue for it. The Japanese occupation lasting actually about four years would have prevented the insured or his beneficiaries from making a claim or suing the United States.

The Government could not expect the claimants to file their claims from concentration camps, from

the hideouts in the jungle, or to communicate with a United States court across the Pacific ocean, were any form of communication by private persons was possible, or with a lawyer in the United States. How ridiculous could the Government be in invoking a strict and narrow interpretation of the statute? And the years of Japanese occupation was an actual and real deterrent, which would have cut off half of their right to sue within the period of six years. Congress promised its beleaguered fighting men a full loaf of bread for their widows and mothers and kin, and the government, by insisting that the Japanese occupation did not create a disability of three years, would cut it into half a loaf, and by so doing snatch it back altogether. How far could the Government go to be unjust? The March of Bataan could well be forgotten among us in our land of plenty, now secured, our days of insecurity having been tided over by the fighting men of the "automatic life insurance" class; we are safe and have no cause to think of any writing on the wall; but, nevertheless, however lulled our senses be, a ghostly march of ideas has been marching in a long cue treading over each print of a sorefoot that marched out of Bataan, and the eyes in these faces are not glaring at the Japs as those in the March of Bataan did.

The Courts, time and again, wisely say: this section (445) should be construed in favor of claimant on question whether it has been complied with whenever possible in borderline cases. Appellant herein stands square on two legal propositions of law to show and urge upon this Court that she has filed within the statute of limitation, and hereby repeats her prayer in her main brief.

Respectfully submitted,

JOSE DEL CASTILLO,
Attorney for Appellant
221 North Church Avenue
Tucson, Arizona

June 17, 1959.

No. 16348✓

United States
Court of Appeals
for the Ninth Circuit

UNITED STATES OF AMERICA,

Appellant,

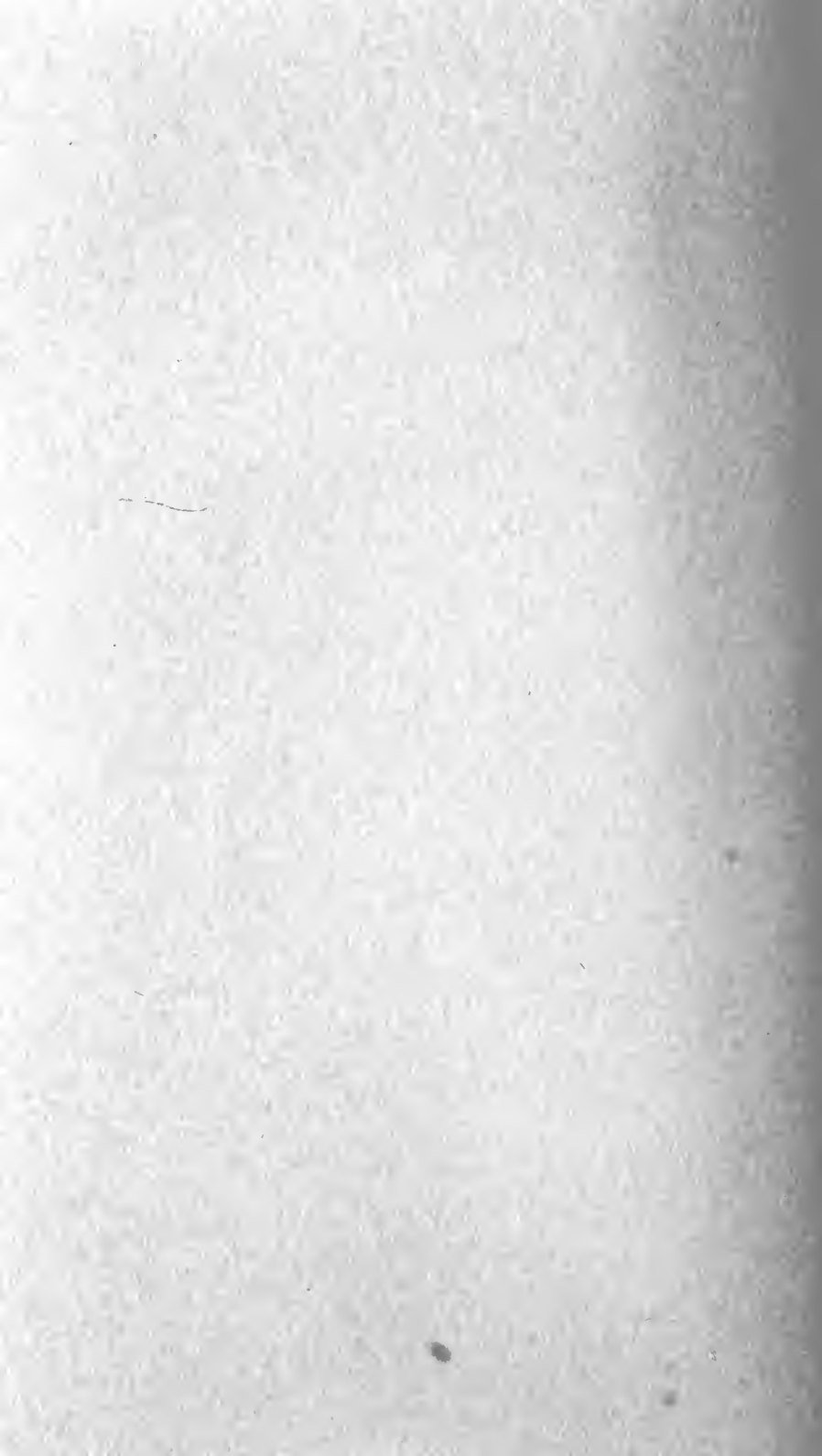
vs.

IRVING I. BASS, Trustee in Bankruptcy of the
Estate of Leland Cameron, Bankrupt,

Appellee.

Transcript of Record

**Appeal from the United States District Court for the
Southern District of California
Central Division**



No. 16348

**United States
Court of Appeals**
for the Ninth Circuit

UNITED STATES OF AMERICA,
Appellant,
vs.

IRVING I. BASS, Trustee in Bankruptcy of the
Estate of Leland Cameron, Bankrupt,
Appellee.

Transcript of Record

**Appeal from the United States District Court for the
Southern District of California
Central Division**



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[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matters appearing in the original certified record are printed literally in *italic*; and, likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible, an omission from the text is indicated by printing in *italic* the two words between which the omission seems to occur.]

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NAMES AND ADDRESSES OF ATTORNEYS

For Appellant:

LAUGHLIN E. WATERS,
United States Attorney;

CHARLES K. RICE,
Asst. U. S. Attorney General;

LEE A. JACKSON,
Attorney, Dept. of Justice,
Washington 25, D. C.;

EDWARD R. McHALE,
Assistant U. S. Attorney;

ROBERT H. WYSHAK,
Assistant U. S. Attorney,
808 Federal Building,
Los Angeles 12, California.

For Appellee:

QUITTNER, STUTMAN & TREISTER,
GEORGE M. TREISTER,
639 So. Spring Street,
Los Angeles 14, California.

In the District Court of the United States
for the Southern District of California
No. 69,054—Y

In the Matter of:

LELAND CAMERON, d/b/a ALLIED AIR-
CRAFT CO., 5536 Satsuma Ave., No. Holly-
wood, Calif.

In Bankruptcy, Chapter XI

CLAIM OF UNITED STATES FOR TAXES

State of California,
County of Los Angeles—ss.

R. A. Riddell, District Director of Internal Revenue, Los Angeles, California, a duly authorized agent for the United States in this behalf, being duly sworn, deposes and says: (1) That the above-named is justly and truly indebted to the United States in the sum of \$41,397.21, With Interest and/or Penalties thereon as hereinafter stated; and (2) That the nature of the said debt is internal revenue taxes due pursuant to law as follows:

General Prior Tax Claim to 11-14-55

Nature of Tax	Period	Tax	Assessed Liability		Accrued	
			Penalty	Interest	Interest 5%	Penalty
Withholding &						
ed. Ins. Cont.	2Q55	\$17,015.58	None	None	\$294.39	\$283.60
Additional interest	11-14-55 to 2-14-56.....				255.23	
Total					\$549.62	

The above tax is claimed as a prior lien. A statutory lien was acquired Aug. 31, 1955. Further interest will accrue on the above assessed liability, viz; \$17,015.58 at the rate of 6% per annum or 80¢ per day from Feb. 14, 1956, until paid.

Total\$17,848.80

General Prior Tax Claim to 11-14-55

Nature of Tax	Period	Tax	Assessed Liability		Accrued	
			Penalty	Interest	Interest	5% Penalty
Withholding & Fed. Ins. Cont.....	3Q55	\$17,811.53	None	None	40.99	None
Withholding & Fed. Ins. Cont.....	4Q55	3,506.76	None	None	None	None
Fed. Unemployment	1955	3,063.34	None	None	None	None
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		\$24,381.63	None	None	40.99	None
Total					\$24,422.62	

Grand Total of Claim as of Feb. 14, 1956.....\$42,271.42

Detail of Federal Unemployment Tax

Total Taxable Wages.....	\$341,036.24
Tax (3% of Wages).....	10,231.09
Less Credit to State.....	7,167.75
Balance of Tax.....	3,063.34

(3) That no part of said debt has been paid, but that the same is now due and payable at the office of the District Director of Internal Revenue at Los Angeles, California; (4) That there are no set-offs or counterclaims to said debt; (5) That the United States does not hold, and has not, nor has any person by its order, or to deponent's knowledge or belief, for its use, had or received any security or securities for said debt, except statutory liens; (6) That the said indebtedness is now due and payable; that no note or other negotiable instrument has been received for said debt or any part thereof; and that no judgment has been rendered thereon; (7) That said debt has priority, and must be paid in advance of distributions to creditors, as and to the extent provided in Section 64a (4) of the Bankruptcy Act, or other applicable provisions of law.

Dated this 26th day of January, 1956.

/s/ R. A. RIDDELL,
District Director of Internal Revenue, Los Angeles,
California.

Subscribed and sworn to before me this 26th day
of January, 1956.

[Seal] /s/ HENRY H. SCHULER,
Notary Public in and for the County of Los An-
geles, State of California.

My Commission Expires April 14, 1958. [2*]

U. S. Treasury Department
Internal Revenue Service
District Director
Los Angeles 12, Calif.

September 18, 1957.

In Replying Refer to: IH:1401:415

Honorable Joseph J. Rifkind,
330 Federal Building,
Los Angeles, California.

In re: Leland Cameron, d/b/a
Allied Aircraft Co.,
5536 Satsuma Avenue,
North Hollywood, Calif.,
Bankruptcy No. 69,054—Y.

My Dear Mr. Rifkind:

Reference is made to the above-entitled bankruptcy proceeding and to the claim of the United States Government for taxes, dated January 26, 1956, aggregating \$42,271.42.

This is to advise that the sum of \$3,251.08 has now been credited to the Withholding and Federal Insurance Contribution Tax for the second quarter of 1955, thereby reducing the total of the Prior Lien portion of the above claim from \$17,848.80 to \$14,597.72, and the grand total of the claim from \$42,271.42 to \$39,020.34.

It will be appreciated if you will associate this letter with the aforementioned claim.

Very truly yours,

/s/ N. F. LUCERO,

Acting Assistant Chief,
Special Procedures Section.

cc: Irving Bass,
George Triester.

Received September 19, 1957.

[Endorsed]: Filed January 26, 1956. [3]

[Title of District Court and Cause.]

OBJECTIONS TO CLAIMS AND NOTICE OF
HEARING OF OBJECTIONS

The undersigned, the duly elected, qualified and acting Trustee in Bankruptcy herein, files his objections to claims which have been filed in these proceedings, and as and for his objections thereto alleges as follows:

Claim No. 139

To: Director of Internal Revenue,
Federal Building,
Los Angeles, California.

The Trustee alleges that said Claim No. 139 was originally filed for \$41,397.21, plus interest and penalties. Thereafter, by letter dated September 18, 1957, and attached to claim number 139, the lien portion of the said claim was reduced by \$3,251.08. The Trustee alleges that within the lien portion of the said claim is included interest accruing subsequent to bankruptcy in the sum of \$255.23.

The Trustee further alleges that claimant is not entitled to post-bankruptcy interest on tax claims, whether or not secured by a lien. Said claim number 139 should be allowed as a lien claim for taxes in the sum of \$14,342.49, and as a general priority claim for taxes in the sum of \$24,422.62 and disallowed as to the balance thereof.

Wherefore, your Trustee prays that his Objec-

tions be heard herein and appropriate Orders be made in the premises.

/s/ IRVING I. BASS,
Trustee in Bankruptcy.

To the Above Creditors and Their Attorneys:

You Are Hereby Notified that the Trustee in Bankruptcy herein has made and filed herein his written Objections to claims, as hereinbefore set forth, and the same have been set for hearing before the Honorable Joseph J. Rifkind, Referee in Bankruptcy, in the Federal Building, Los Angeles, California, on the 9th day of July, 1958, at the hour of 2:00 o'clock p.m.

Dated: June 4, 1958.

/s/ GEORGE M. TREISTER,
Attorney for Trustee.

[Endorsed]: Filed June 18, 1958. [4]

[Title of District Court and Cause.]

MEMORANDUM OPINION RE OBJECTION
TO CLAIM No. 139 OF DIRECTOR OF IN-
TERNAL REVENUE

The validity and amount of the government's tax lien levied prior to bankruptcy is not disputed. The only question involved in the Objection to Claim No.

139, filed by the Director of Internal Revenue, is whether the government is entitled to post bankruptcy interest to the date of payment of such claim as it claims, or only to the date of the filing of the bankruptcy proceedings as contended by the trustee.

It is the opinion of the court that under *Palo Alto Mutual Savings & Loan Association v. Williams* (9 Cir.), 245 F. (2) 77, interest accrues on a secured claim such as a tax lien to the date of payment. Counsel for the government will prepare, serve and submit an appropriate order.

Dated: July 28, 1958.

/s/ JOSEPH J. RIFKIND,
Referee in Bankruptcy.

[Endorsed]: Filed July 28, 1958. [8]

[Title of District Court and Cause.]

STIPULATION OF FACT

It is hereby stipulated that, for the purpose of this matter, the following statements may be accepted as facts:

On August 31, 1955, the District Director of Internal Revenue for the District of Los Angeles assessed Withholding and Federal Insurance Contributions taxes for the second quarter of 1955 in the

sum of \$17,015.58 against the bankrupt, Leland Cameron; that notice of the assessment and demand for the payment of said tax was made upon the bankrupt, Leland Cameron, on September 8, 1955, but that no payment was made by him; that the sum of \$3,251.08 was credited to this assessment on March 20, 1957, the sum of \$13,764.50 was credited to this assessment on July 9, 1958, and the sum of \$294.09 was credited on July 9, 1958, to accrued interest on this assessment; that no part of the principal amount of the assessed tax remains due, owing and unpaid to the District Director of Internal Revenue after the credits made on July 9, 1958, but [5] that accrued interest in the sum of \$2,453.64, representing the balance of interest which accrued from the date of assessment until the date of payment, remains due, owing and unpaid to the District Director of Internal Revenue.

Dated: This 7th day of August, 1958.

QUITTNER, STUTMAN &
TREISTER,

By /s/ GEORGE M. TREISTER,
Counsel for the Trustee in
Bankruptcy.

LAUGHLIN E. WATERS,
United States Attorney;

EDWARD R. McHALE,
Assistant U. S. Attorney,
Chief, Tax Division;

JACK ROBERTS,

Attorney, Internal Revenue
Service;

By /s/ JACK ROBERTS,

Counsel for District Director
of Internal Revenue.

[Endorsed]: Filed August 8, 1958. [6]

[Title of District Court and Cause.]

FINDINGS OF FACT, CONCLUSIONS OF
LAW AND ORDER ON TRUSTEE'S OB-
JECTION TO CLAIM OF DISTRICT DI-
RECTOR OF INTERNAL REVENUE

At Los Angeles, in Said District, on the 8th Day
of August, 1958.

The objection of the Trustee in Bankruptcy to
Claim No. 139 of the District Director of Internal
Revenue having come on for hearing on the 9th
day of July, 1958, before the undersigned Referee
in Bankruptcy, of which hearing due notice was
given to Respondent, at which hearing the Trustee
was represented by George M. Treister of Quittner,
Stutman and Treister and the District Director of
Internal Revenue was represented by Laughlin E.
Waters, United States Attorney; Edward R. Mc-
Hale, Assistant United States Attorney, Chief, Tax
Division, and Jack E. Roberts, Attorney, Internal
Revenue Service; and the Court being duly advised
now makes the following: [10]

Findings of Fact

I.

That on August 31, 1955, the District Director of Internal Revenue for the District of Los Angeles assessed Withholding and Federal Insurance Contributions taxes for the second quarter of 1955 in the sum of \$17,015.58 against the bankrupt, Leland Cameron; that notice of the assessment and demand for the payment of said tax was made upon the bankrupt, Leland Cameron, on September 8, 1955, but that no payment was made by him; that the sum of \$3,251.08 was credited to this assessment on March 20, 1957, the sum of \$13,764.50 was credited to this assessment on July 9, 1958, and the sum of \$294.09 was credited on July 9, 1958, to accrued interest on this assessment; that no part of the principal amount of the assessed tax remains due, owing and unpaid to the District Director of Internal Revenue after the credits made on July 9, 1958, but that accrued interest in the sum of \$2,453.64, representing interest which accrued from the date of the petition herein until the date of payment, remains due, owing and unpaid to the District Director of Internal Revenue.

II.

That on November 14, 1955, the petition was filed with the Court which instituted these proceedings.

From the foregoing findings of fact the Court draws the following:

Conclusions of Law

I.

That a lien in favor of the United States in the amount of \$17,015.58 arose at the time the assessment was made on August 31, 1955, [11] and became a lien upon all property and rights to property, whether real or personal, belonging to the bankrupt, Leland Cameron.

II.

That said lien is valid against the Trustee in Bankruptcy.

III.

That interest accrues to the date of payment on a secured claim such as a tax lien and should be allowed as part of the lien claim of the District Director of Internal Revenue.

Order

In accordance with the foregoing Findings of Fact and Conclusion of Law it is hereby ordered, adjudged and decreed:

That the claim of the District Director of Internal Revenue for interest on the taxes which were assessed and became liens prior to the date on which the bankrupt filed his petition with this Court be allowed and that the amount of \$2,453.64, remaining due, owing and unpaid, be paid by the Trustee in Bankruptcy to the District Director of Internal Revenue.

Dated: This 8th day of August, 1958.

/s/ JOSEPH J. RIFKIND,
Referee in Bankruptcy.

Approved as to form:

QUITTNER, STUTMAN &
TREISTER,

By /s/ GEORGE M. TREISTER,
Counsel for Trustee in
Bankruptcy.

Received August 8, 1958.

[Endorsed]: Filed August 8, 1958. [12]

[Title of District Court and Cause.]

PETITION TO REVIEW ORDER OF REF-
EREE RE OBJECTIONS TO CLAIM NUM-
BER 139

To: Honorable Joseph J. Rifkind, Referee in
Bankruptcy:

The petition of Irving I. Bass respectfully rep-
resents and shows:

I.

Your petitioner is the duly elected, qualified and
acting Trustee in Bankruptcy of the above-entitled
matter.

II.

Your petitioner is aggrieved by the order of the
Honorable Joseph J. Rifkind, Referee in Bank-
ruptcy, entered August 8, 1958, overruling your

petitioner's objections to a portion of claim number 139, Director of Internal Revenue claimant.

III.

The Referee erred in said order overruling your petitioner's objections to the said claim and allowing interest on the lien portion of the said claim to the date of payment thereof. Your petitioner contends that interest on tax lien [13] claims, as in the case of tax claims not secured by liens, ceases to accrue at the date of bankruptcy, to wit, November 15, 1955.

Wherefore, your petitioner prays that said order be reviewed by a Judge in accordance with the provisions of the Bankruptcy Act, that said order should be reversed and the said claim of the Director of Internal Revenue allowed with interest only to the date of bankruptcy but not thereafter, and that your petitioner have such other and further relief as is just.

Dated: August 13, 1958.

/s/ IRVING I. BASS,
Trustee in Bankruptcy.

QUITTNER, STUTMAN &
TREISTER,

By /s/ GEORGE M. TREISTER,
Attorneys for Trustee.

Duly verified.

Affidavit of Service by Mail attached.

[Endorsed]: Filed August 15, 1958. [14]

[Title of District Court and Cause.]

CERTIFICATE ON REVIEW FROM REFEREE'S ORDER DATED AUGUST 8, 1958

To: Hon. Leon R. Yankwich, Chief United States District Judge.

The undersigned, Joseph J. Rifkind, a Referee in Bankruptcy of the above-entitled court, does hereby certify as follows:

Statement of Case

The referee made an order on August 8, 1958, holding that the Director of Internal Revenue was entitled to post-bankruptcy interest on the government's tax lien to the date of payment. The trustee in bankruptcy contends that the government is only entitled to interest on the tax lien to the date that the bankruptcy proceedings were instituted. The trustee in bankruptcy feeling aggrieved by the order of the referee has filed a petition for review.

Summary of the Evidence

The objection of the trustee in bankruptcy to the claim of the Director of Internal Revenue was heard on the following stipulated facts, to wit:

"On August 31, 1955, the District Director of Internal Revenue for the District of Los Angeles assessed Withholding and Federal Insurance Con-

tributions taxes for the second quarter of 1955 in the sum of \$17,015.58 against the bankrupt, [17] Leland Cameron; that notice of the assessment and demand for the payment of said tax was made upon the bankrupt, Leland Cameron, on September 8, 1955, but that no payment was made by him; that the sum of \$3,251.08 was credited to this assessment on March 20, 1957, the sum of \$13,764.50 was credited to this assessment on July 9, 1958, and the sum of \$294.09 was credited on July 9, 1958, to accrued interest on this assessment; that no part of the principal amount of the assessed tax remains due, owing and unpaid to the District Director of Internal Revenue after the credits made on July 9, 1958, but that accrued interest in the sum of \$2,453.64, representing the balance of interest which accrued from the date of assessment until the date of payment, remains due, owing and unpaid to the District Director of Internal Revenue."

The involuntary bankruptcy proceedings herein were filed on November 15, 1955, and the debtor was adjudicated a bankrupt on March 12, 1956.

Questions Presented on Review

The only question presented on review is whether or not interest on the government's tax lien ceases to accrue after the date of the institution of the bankruptcy proceedings or whether the government is entitled to accrued interest on its tax lien to the date of payment of the claim.

Documents Transmitted With Certificate

The following documents are transmitted herewith, to wit:

1. Claim No. 139 filed by District Director of Internal Revenue on January 26, 1956, for \$41,397.21, with [18] letter attached thereto from the U. S. Treasury Department dated September 18, 1957;

2. Objection to Claim and Notice of Hearing of Objections filed June 18, 1958;

3. Stipulation of Facts filed August 8, 1958, by counsel for District Director of Internal Revenue;

4. Letter dated July 14, 1958, from George M. Treister, attorney for trustee, to the referee in bankruptcy, citing authorities;

5. Memorandum Opinion re Objection to Claim No. 139 of Director of Internal Revenue filed July 28, 1958, and Certificate of Mailing thereof;

6. Findings of Fact, Conclusions of Law and Order on Trustee's Objection to Claim of District Director of Internal Revenue, dated August 8, 1958;

7. Petition to Review Order of Referee re Objections to Claim No. 139, filed by trustee in bankruptcy on August 15, 1958;

Dated: August 20, 1958.

/s/ JOSEPH J. RIFKIND,
Referee in Bankruptcy.

[Endorsed]: Filed August 20, 1958. [19]

[Title of District Court and Cause.]

OPINION

Yankwich, Chief Judge:

On November 14, 1955, a petition in involuntary bankruptcy was filed against Leland Cameron, also known as L. H. Cameron, doing business as Allied Aircraft Company.* On March 8, 1956, the debtor withdrew his Answer to the petition and consented to an Order of Adjudication.² On August 31, 1955, the District Director of Internal Revenue for the District of Los Angeles assessed withholding and federal insurance contribution taxes against the debtor for the second quarter of 1955 in the sum of \$17,015.58. Notice of the assessment, with demand for the payment, was made on September 8, 1955. No payment was made at the time. On March 20, 1957, the sum of \$3,251.08 was credited to this assessment; on July 9, 1958, the sum of \$13,764.50 was credited, and, finally, the sum of \$294.09 was credited on July 9, 1958, to accrued interest on the assessment.

*[Notes to text are set out following this Opinion.]

The principal of the assessment has been paid, but on July 9, 1958, accrued interest in the sum of \$2,453.64, representing interest which accrued from the date on which the petition was filed until the date of payment remained unpaid. A lien for the assessment was perfected before filing of the petition.³

The District Director presented a claim for the entire sum which was known as Claim No. 139. The Trustee objected to the portion relating to the assessment of interest after the date of the filing of the petition. After hearing, on notice, the Referee made an Order dated August 8, 1958, overruling the objection of the Trustee, and allowing post-bankruptcy interest on [22] the claim, to constitute a lien on the assets of the bankrupt. The Referee made findings embodying the facts we have summarized, which were stipulated. In a memorandum preceding the findings, the Referee expressed the view that a recent decision of the Court of Appeals for the Ninth Circuit,⁴ which held that a secured creditor was entitled to interest to the date of payment, whenever the proceeds of the sale of the encumbered property are sufficient to pay not only the principal, but the post-bankruptcy interest as well, applied. He, therefore, upheld the contention of the Government, reasserted here, that the lien for taxes,⁵ when perfected,⁶ is of the same character as a security, so as to entitle the Government to interest to the date of payment.

I.

Interest on Claims in Bankruptcy

The determination of the matter calls for a brief examination of the problem of interest on claims in bankruptcy. Section 62(b) of the Bankruptcy Act of 1938, which, in one form or another, has existed since the enactment of the first Bankruptcy Act, provides:

“Debts of the bankrupt may be proved upon (1) a fixed liability, as evidenced by a judgment or an instrument in writing, absolutely owing at the time of the filing of the petition by or against him whether then payable or not, with any interest thereon which would have been recoverable at that date or with a rebate of interest upon such as were not then payable or not, with any interest thereon which would have been recoverable [23] at that date or with a rebate of interest upon such as were not then payable and did not bear interest;⁷

One of the great innovations of the 1938 Act was to put claims of the United States and the States in the same class with others so far as proving and filing are concerned, with the exception that the Government of a State or subdivision may obtain an extension of time.⁸ The object of the section, as interpreted by writers, so far as interest is concerned, has been summed up in this manner:

“A governmental or public claim can include interest in like manner and to the same extent as

any other claim, but to no greater extent. It cannot include interest accruing after the filing of the bankruptcy or reorganization petition, even though it has been reduced to lien form.’’⁹

The Congress, in placing federal and state taxing bodies and other creditors on the same footing as to interest, gave effect to traditional doctrine which, for over a century and a half, in England and in the United States, disallowed interest in bankruptcy. The reason was stated by Mr. Justice Holmes in a leading case:

“For more than a century and a half the theory of the English bankrupt system has been that everything stops at a certain date. Interest was not computed beyond the date of the commission. * * * The rule is not unreasonable when closely considered. It simply [24] fixes the moment when the affairs of the bankrupt are supposed to be wound up.’’¹⁰

There has been no break in the continuity of this approach.¹¹ Significantly, in the last case,¹² the Court says as to Government tax claims:

“Tax claims are treated the same as other debts except for the fourth priority of payment, § 54(a), 11 U.S.C. § 104(a), and the provision making taxes nondischargeable, § 17, 11 U.S.C. § 35. But each of these sections is silent as to interest.

“The long-standing rule against post-bankruptcy interest thus appears implicit in our current Bankruptcy Act.”¹³

In the case in which this statement was made, the Court held that the City of New York could not claim interest on taxes beyond the date of bankruptcy. As the Bankruptcy Act of 1938 makes no distinction between State and federal taxes grouping them as claims,¹⁴ the Court of Appeals which have had occasion to apply this decision, have held that tax claims by the Government of the United States are in the same category and draw no interest beyond the date of bankruptcy.¹⁵

The Supreme Court, in denying certiorari in two of these cases, specifically referred to its ruling in the Saper case.¹⁶ It is noteworthy also that in each of these cases, the Government attempted, as it does in this case, to limit the Saper case ruling to the specific situation in the case.¹⁷ However, the Courts declined to do so and held that, by analogy, the principle applied [25] not only to bankruptcy, but to receiverships and reorganization proceedings. The Court of Appeals for the Second Circuit in the case just cited, speaking through Chief Judge Clark, said very emphatically:

“The question of the accruing of interest and tax penalties during bankruptcy had divided the courts, including different panels of our own court, until the case of *City of New York vs. Saper*, 336 U. S. 328, 69 S. Ct. 554, 93 L. Ed. 710, and other companion cases settled that such

claims whether federal or state, were not collectible in bankruptcy including reorganization and arrangement proceedings. Thereafter we construed the meaning and intent of this principle to be that such claims could not thereafter be used to harass a reorganized corporation as it attempted anew to face the vicissitudes of business life. It is true that *Sword Line vs. Industrial Commissioner of State of New York*, 2 Cir., 212 F. 2d 865, certiorari denied 348 U. S. 830, 75 S. Ct. 53, 99 L. Ed. 654, specifically concerned a state claim; but the entire reasoning, based upon the Saper principle, was as completely applicable to federal as to state claims. See 30 N. Y. U. L. Rev. 716, n. 2, 718, n. 17. In our view interest and penalties did not accrue after the bankruptcy. Whether this or a rationale that they accrued but were barred, see 54 Col. L. Rev. 1293; 30 N. Y. U. L. Rev. 558, 580-584, is the more appropriate, the result [26] is the same. They are nonexistent; and the proceedings for their collection are at best futile, at worst inimical to the future welfare of the newly reorganized corporation. In the *Sword Line* case there was an extensive and persuasive dissent advancing all the arguments which it seems the appellee here can eventually propound; but the denial of certiorari, 348 U. S. 830, 75 S. Ct. 53, 99 L. Ed. 654, terminated that claim and permitted our injunction against the state proceedings for collection to stand.”¹⁸

In another of these cases, the logic of the application of the doctrine which denies interest after bankruptcy was defended in this manner:

“We think that no implication reasonably can be drawn from the Saper case that tax claims have any different status in an arrangement proceeding under Chapter XI than they have in ordinary bankruptcies. The Supreme Court said in the Saper case, pages 337-338, of 336 U.S., page 559 of 69 S. Ct.; ‘The Court of Appeals concluded that by the 1926 amendment and the Chandler Act, Congress assimilated taxes to other debts for all purposes, including denial of postbankruptcy interest. We think this is a sound and logical interpretation of the Act after those amendments to §§ 64, sub. a, and 57, sub. n. Considered in conjunction with the general rule against postbankruptcy interest as well as § 63’s limitations of interest [27] on other claims to date of bankruptcy, they compel our conclusion, already stated, that the statute as amended did not contemplate any exception in favor of tax claims.’

“It seems apparent that if the amended sections referred to by the Supreme Court, namely 64, sub. 2, 57, sub. n. and 63, are applicable to arrangement proceedings under Chapter XI, there can be no logical basis for a ruling that in such a proceeding a tax claim bears interest beyond the date when the debtor’s petition is filed.”¹⁹ (Emphasis added.)

These decisions correctly interpret the nature of the Government tax liens against the historical background of the denial of post-bankruptcy interest. The tax lien of the Government attaches to

“all property and rights to property whether real or personal,”

belonging to the taxpayer.²⁰ It continues

“until the liability for the amount so assessed is satisfied or becomes unenforceable by reason of lapse of time.”²¹

It is insisted that a distinction should be made between ordinary taxes and taxes which have been transmuted into a lien. It is argued that the tax lien created by these sections is a specific lien, so that the same rule as to interest should apply as the Court of Appeals for the Ninth Circuit applied in the Palo Alto case which the Referee followed.²² [28]

The cases which have used the word “specific” in designating the lien were cases involving claimed priorities between tax liens of the Government and liens of local taxing agencies. To overcome the contention that the liens of the Government were “floating,” the Courts said that the liens were specific in the sense that as of the date of the filing of proper notice, they attach to all the property owned by the taxpayer. One of the cases relied on at the argument shows clearly that the word “specific” was used merely to indicate that the

lien, although it attached to more than one parcel of property, is specific enough to have priority over other liens. The language used is this:

“To say that the lien provided by this statute is a general lien on all the property of the taxpayer does not help in the solution of the problem presented; for a lien is not deprived of validity because it attaches to a number of pieces of property instead of to a single piece, nor is it for that reason to be subordinated to a junior lien attaching to a single piece of property. When properly perfected, the lien under the statute constitutes a charge upon specific property of the taxpayer for the satisfaction of which that property may be sold under proceedings instituted for the purpose As said in *Metropolitan Life Ins. Co. vs. United States*, 6 Cir., 107 F. 2d 311, 313, ‘The Federal statutes create specific liens for taxes and as a corollary give a specific remedy for their removal and when such liens [29] once attach, they may be lifted only as provided thereunder.’²³ (Emphasis added.)

These decisions merely give effect to the established doctrine that a Government tax lien made specific by notice, has priority over any other liens.²⁴ They do not teach that it is a specific encumbrance on a specific piece of property in the sense in which a mortgage or deed of trust is.

II.

No Interest on Taxes, Liened or Not

The determination of the matter before us must be made against the background we have just outlined, that, as a rule, the disallowance of interest is, and has been, traditionally the rule in bankruptcy. The exceptions to the rule are few. Interest will be allowed in bankruptcy or liquidation if (a) by reason of a change of affairs the estate can pay out the creditors in full and there is money left to pay interest;²⁵ (b) when income is produced from a security given by the bankrupt to the creditor, as interest on bonds, dividends on stock or rentals on mortgaged property.²⁶

The Court of Appeals for the Ninth Circuit and others have added a new category, the instance where

“the estate is insolvent but the proceeds of the sale of the mortgaged properties are sufficient to pay post-bankruptcy interest to the secured creditor.”²⁷ [30]

The situation thus contemplated was intended to protect the creditor in his security which, on liquidation, produced enough to satisfy the encumbrance. And herein lies the real distinction between the situation which the Court had before it in that case and a tax lien.

An encumbrance is placed upon the property voluntarily by a debtor as security for his debt after

agreement with the creditor. By doing so, the debtor authorizes not only the satisfaction of the debt out of the sale of the particular property, but agrees to the payment of any deficiency that might arise after the sale and that other property he may own may be subjected by execution to the payment of a deficiency judgment.²⁸

In whatever legal proceeding the secured creditor takes to satisfy his debt, the debtor cannot, except in cases involving fraud, question the validity of the instrument or the amount of the debt which it was given to secure. *Prima facie*, at least, the presumption is that it was voluntarily given for a debt actually owed. At most, the question might arise about any deductions for payments made. So the instrument itself settles most of the problems as to genuineness, due execution and the amount of the debt. This is not so in the case of a tax lien. The tax lien is merely an assertion by the Government that so much tax remains unpaid. The filing of the lien does not determine the tax as against the taxpayer. And, in any subsequent proceedings, whether brought by the Government to foreclose the lien or by the taxpayer [31] who pays the assessment and sues for a refund or enjoins the Government after liquidation or seizure, or by the Government of the United States when it institutes the action to collect, the validity of the entire assessment and its exact amount are justiciable questions.²⁹ Rightly. For otherwise, the taxpayer would be at the mercy

of the humblest agent of the revenue service who capriciously levied an assessment. From long judicial experience, I know of assessments running into hundreds of thousands of dollars, which, after judicial inquiry, were found to have no foundation except a misinterpretation of the law by the officer levying the assessment concurred in by the Commissioner. So there are many cogent reasons for allowing post-bankruptcy interest in a case where a specific piece of property is impressed by the debtor with a mortgage or trust deed and appropriated, after mutual agreement between him and his creditor, to the payment of a specific debt, when, upon liquidation, a surplus exists. But there is no justification for a distinction between ordinary taxes and taxes which are made the subject of a lien, which comes into being unilaterally and may be disputed as to validity and amount by the taxpayer in administrative and judicial proceedings, warranting the court to depart from the salutary principle of disallowing interest in bankruptcy, except in certain extraordinary instances.

Collier sums up very graphically the reason for assimilating the tax claim with all other claims, so far as interest is concerned:

“It seems, however, that the Act of 1938 should offer sufficient justification for assimilating the treatment of tax claims to that of other claims. That former § 64a [32] singling out tax claims as claims *sui generis* has not been

deleted may perhaps in itself not warrant the abandonment of a practice that was not deviated from when the 'superpriority' granted by the Act of 1898 was transformed into a sixth priority. But the Act of 1938 went one step further. It deprived tax claims of their former immunity from destruction through failure to observe the statutory period of proof as provided in § 57n. Tax claims are now to be proved in the manner and time prescribed for other claims. Unless it is felt that their continued exception from dischargeability has any bearing on the question, this deliberate and fundamental change in conjunction with the elimination of former §64a would seem clearly to indicate that Congress is inclined to liken tax claims to other claims and subject them to the same rules. As to interest, this would entail the stopping of interest from the date of bankruptcy to the extent and with the qualifications discussed previously."³⁰

III.

Comment on Some Decisions

Several district courts which have had before them the problem of interest on federal taxes reduced to liens have declined to see any distinction between them and any other taxes and have declined to allow post-bankrupt interest on them. As their reasoning accords with my own views, and with the general principles [33] already outlined,

brief quotations from some of them will be given with appropriate comment.

In a case arising in the District Court of Kansas, the Referee in bankruptcy, whose views were later adopted by the Court, wrote:

“A statutory lien comes into existence at the instance of the lienor who sets in motion the statutory authority. The lien is dependent for its existence on a valid debt or obligation. The debt may survive the lien, but the lien cannot survive the debt. If the debt fails or ceases to exist, the lien is nugatory. The lien does not establish the amount of the debt. It cannot make an indebtedness legal that otherwise would be illegal.

“The sole purpose of a penalty is to punish for a delinquency. This is especially true under the tax laws. The imposing of a penalty on a bankrupt estate is not a punishment of the delinquent but of the creditor—the innocent bystanders. It is contrary to every principle of American law that one person should be punished for the delinquency of another.

“If Section 57, sub. j of the bankruptcy act is set aside by the establishment of a lien, then the estate may be wiped out, not by debts but by penalties. If Section 57, sub. j is not enforceable against tax liens, what is to be done with Section 67, sb. c? [34] The first makes a penalty disallowable, the second postpones

the lien. If the first statute is nullified by an established lien, why is not the second?

“It is my conclusion that the United States is not entitled to recover penalties, although they may be a part of an established lien.”³¹
(Emphasis added.)

In another case, Chief Judge Wallace S. Gourley of the Western District of Pennsylvania, sums of the principle against allowance of post-bankruptcy interest and applies it to tax claims reduced to liens in this manner:

“As a matter of public policy the courts have recognized that as a general rule, after property of an insolvent passes into the hands of a receiver, interest is not allowed against the funds. The delay in distribution is the act of the law; it is a necessary incident to the settlement of the estate. *Thomas v. Western Car Co.*, 149 U. S. 95, 13 S. Ct. 824, 37 L. Ed. 663; *Vanston Bondholders Protective Committee v. Green*, 329 U. S. 156, 67 S. Ct. 237, 91 L. Ed. 162.

“The government has concurred in the view that tax claims against a bankrupt bear interest only until the date of bankruptcy, but seeks to distinguish between those tax claims reduced to liens and tax claims not reduced to liens, advancing the argument that the general rule of interest herein enunciated has application only to tax claims not reduced to liens. [35]

“I find no basis in law or policy for this arbitrary distinction. A meticulous examination of the authorities reveals no such tortured classification.”³² (Emphasis added.)

More recently, the same Pennsylvania District Court applied these principles to penalties.³³ And a Texas District Court has concurred in this view.³⁴

Summary and Conclusion

The general rule against allowance of interest on all claims in bankruptcy, including tax claims, after the filing of the petition, has sound historical considerations dating back to more than a century and a half in English and American practice, as the preceding discussion shows. It is grounded on the principle that

“* * * delay in distribution is the act of the law; it is necessary incident to the settlement of the estate.”³⁵

“Equality of distribution” between creditors equally situated is the aim of the bankruptcy law.³⁶ A differentiation between simple taxes and liened taxes is not warranted by the present bankruptcy statute which, with few exceptions, places all claims on an equal basis as to interest and rejects penalties, except where actual pecuniary loss has been sustained.³⁷

As stated in the New York case already referred to:

“The underlying claim upon which the tax lien is predicated in the case at bar is expressly barred by Section 57, sub. j for the protection of other creditors whose interest would be adversely affected by the withdrawal of assets from the bankrupt estate. The fact that the penalties are covered by a lien does not alter the conclusion that such penalties are not allowable in this proceeding.”³⁸ (Emphasis added.)

A contrary view would result in the anomaly of the Government being, in many cases, the sole creditor who not only is paid its debt in full, but receives post-bankruptcy interest, while other creditors, to whom the major part of the debts is owed, receive little or nothing. In the case of the ordinary business firm, the lienable tax claims, such as withholding taxes and the like, which are paid periodically, would constitute a small amount of the debts owed.³⁹

Because the Government's lien attaches to all the debtor's property, a situation might arise where the sale of all the debtor's property might not bring more than the amount of the Government's tax lien, swollen by interest. This would mean that the Government would become the preferred creditor, not by reason of any statutory command, but by reason of a judicial interpretation which, disregarding historical and equitable considerations, would allow the Government to augment its debt by adding interest to the time of payment. Absent an ex-

plicit Congressional direction, we should avoid, in bankruptcy, a construction which would make such inequality possible. The Government is given a preferred position as to its tax claims by statute.⁴⁰ We should not better it by extending it to interest by judicial fiat.⁴¹ [37]

The Order of the Referee dated August 8, 1958, allowing interest after the filing of the petition in the sum of \$24,563.64, is reversed and the said interest is ordered disallowed.

Formal Order to follow to be prepared by counsel for the Trustee.

Dated: October 1, 1958.

/s/ LEON R. YANKWICH,
Chief Judge. [38]

Notes to Text

¹Bankruptcy Act of 1938, § 3; 11 U.S.C.A., § 21.

²Bankruptcy Act of 1938, § 3(6); 11 U.S.C.A., § 21(6).

³Internal Revenue Code of 1954, § 6323.

⁴Palo Alto Mutual Savings & Loan Association v. Williams, 9 Cir., 1957, 245 F. 2d 77.

⁵Internal Revenue Code of 1954, § 6321.

⁶Internal Revenue Code of 1954, § 6323.

⁷Bankruptcy Act of 1938, § 63(a); 11 U.S.C.A., § 103(a). For a resume of the legislative changes, see, Collier on Bankruptcy, 14th Ed., 1956, Vol. 3, §§ 63.01-63.02, pp. 1755-1762.

⁸Bankruptcy Act of 1838, § 57(n); 11 U.S.C.A.,

§ 93(n); Collier on Bankruptcy, 14th Ed., Vol. 3, § 6326, pp. 1869-1870.

⁹² Remington on Bankruptcy, 1956, pp. 224-225.

¹⁰ *Sexton v. Dreyfus*, 1911, 219 U.S. 339, 344.

¹¹ *American Iron Company v. Seaboard Airlines*, 1913, 233 U.S. 261, 266-267; *Vanston Committee v. Green*, 1946, 329 U.S. 156, 163-165; *In re Inland Gas Corp.*, 6 Cir., 1957, 241 F. 2d 374, 379.

¹² *New York v. Saper*, 1949, 336 U.S. 328, 330-332.

¹³ *New York v. Saper*, *supra* Note 12, p. 332.

¹⁴ Bankruptcy Act of 1938, § 57(n).

¹⁵ *United States v. General Engineering & Mfg. Co.*, 8 Cir., 1951, 188 F. 2d 80; *United States v. Edens*, 4 Cir., 1951, 189 F. 2d 876; *National Foundry Co. of New York v. Director of Internal Revenue*, 2 Cir., 1956, 229 F. 2d 149. And see, *Vanston [39] Committee v. Green*, 1946, 329 U.S. 156, 163-165.

¹⁶ *United States v. Edens*, 1952, 342 U.S. 912; *United States v. General Engineering & Mfg. Co.*, 1952, 342 U.S. 912.

¹⁷ See cases cited in Note 15.

¹⁸ *National Foundry Company v. Director of Internal Revenue*, *supra* Note 12, p. 150.

¹⁹ *United States v. General Engineering & Mfg. Co.*, *supra* Note 15, pp. 81-82.

²⁰ Internal Revenue Code of 1954, § 6321.

²¹ Internal Revenue Code of 1954, § 6322.

²² *Palo Alto Mutual Savings & Loan Assn. v. Williams*, *supra* Note 4.

²³ *United States v. City of Greenville*, 4 Cir., 1941, 118 F. 2d 963, 965. Similar language is used in *United States v. Reese*, 7 Cir., 1942, 131 F. 2d 466, 470, where the Court states that

“* * * the government’s lien, made specific by being of record, takes priority over an existing

inchoate lien not liquidated or fixed in amount until after the government's lien attached." (Emphasis added.)

²⁴New York v. Maclay, 1933, 288 U.S. 290; Michigan v. United States, 1943, 317 U.S. 338; Cobb v. United States, 1949, U.S. App. D.C., 172 F. 2d 277.

²⁵See, Ticonic National Bank v. Sprague, 1938, 303 U.S. 406, 410-411; Fujikawa v. Sunrise Soda Water Works Co., 9 Cir., 1946, 158 F. 2d 490, 494; Campbell v. Littleton, 4 Cir., 1950, 179 F. 2d 848, 852-853; Note, 27 A.L.R. 2d 586. See the writer's opinion in re F. P. Newport Corp., 1954, D.C. Cal., 123 F. Supp. 95, 99.

²⁶Palo Alto Mutual Savings & Loan Assn. v. Williams, *supra* Note 4, p. 79. These exceptions have received general recognition. See, Collier on Bankruptcy, 14th Ed., Vol. 3, § 63.16, pp. 1839-1844.

²⁷Palo Alto Mutual Savings & Loan Assn. v. Williams, *supra* Note 4, p. 78. See, In re Macomb Trailer Coach, 6 Cir., 1952, 200 F. 2d 611, In re Inland Gas Corp., 6 Cir., 1957, 241 F. 2d 374, 379-380.

²⁸California Civil Code, §§ 2947-2953; California Code of Civil Procedure, § 725(a)-730. See also, California Code of Civil Procedure, § 580(a) (deficiency judgment). Judge Richard H. Levet of the Southern District of New York, in a case in which the Government sought both penalties and interest on taxes which had been liened, summed up the differences between a voluntary bi-lateral security on property which, when liquidated, produces enough to satisfy principal and interest, and the type of unilateral lien perfected pursuant to the Internal Revenue Code "upon all property and rights to property whether real or personal," of the taxpayer. (Internal Revenue Code of 1954, §6321) in this manner: [41]

"A general lien of this type is distinguishable from the specific security involved in those cases where the courts have seen fit to recog-

nize the existence of an exception to the general rule that interest ceases to run on secured and unsecured claims as of the date of the filing of the petition in bankruptcy. The distinction lies in the fact that the specific security involved in the cases where an exception was found was usually the result of a voluntary transaction between the debtor and the creditor and the payment of interest was contemplated by the parties. This Court, therefore, is reluctant to extend the application of the third exception to allow interest on a tax lien to the date of payment where the security consists of a general lien 'upon all property and rights to property, whether real or personal' belonging to the bankrupt." (In re Lykens Hosiery Mills, D.C. S.D. N.Y., 1956, 141 F. Supp. 895, 897-898.)

²⁹See, Internal Revenue Code of 1954, §§ 6211-6216 (relating to deficiency procedure); §§ 6301-6303 (relating to the collection of taxes); §§ 6331-6337 (relating to seizure and sales of property); §§ 7401-7407 (relating to civil actions by the United States); §§ 7421-7425 (relating to proceedings by the taxpayer).

³⁰Collier on Bankruptcy, loc. cit., p. 1843.

³¹In re Burch, Ref., D.C. Kans., 1948, 89 F. Supp. 249, 254. The [42] ruling of the Referee disallowed the penalty, but allowed interest. This view was followed by Chief Judge Arthur J. Mallott of the District of Kansas in In re Haynes, D.C. Kans., 1949, 88 F. Supp. 379, 383.

In our view, the imposition of post-bankruptcy interest is a penalty. As stated by Judge John Bright in In re Union Fabrics, D.C. N.Y., 1947, 73 N.Y. Supp. 685, 688:

"The allowance of interest to the date of payment, an accumulation caused solely because of delays necessitated by the successful efforts of the Trustee to protect and increase

the estate, seems to me to be entirely inequitable and to result in an unbalance of equities between the several creditors rather than a 'balance of equities' which the Supreme Court says is the touchstone of each decision. It would do more. As I have written above, it would require the general creditors to pay the penalty caused by the delay necessitated to preserve and protect the estate." (Emphasis added.)

³²In re Industrial Machine & Supply Co., W.D. Pa., 1953, 112 F. Supp. 261, 263. A similar ruling was made in the Southern District of New York in In re Lykens Hosiery Mills, discussed supra Note 28. [43]

³³In re Hankey Baking Co., 1954, W.D. Pa., 125 F. Supp. 673.

³⁴In re C. J. Dick Towing Co., 1958, D.C. Texas, 161 F. Supp. 751.

³⁵Thomas v. Western Car Co., 1893, 149 U.S. 95, 117. See, Tredegar Co. v. Seaboard Air Line Ry., 4 Cir., 1910, 183 F. 2d 289, 290. See, American Iron & Steel Mfg. Co. v. Seaboard Air Line Ry., 1914, 233 U.S. 261, 266, where the Court said:

"As this delay was the act of the law, no one should thereby gain an advantage or suffer a loss."

³⁶Samsell v. Imperial Paper Corp., 1941, 313 U.S. 215, 219; American Iron & Steel Mfg. Co. v. Seaboard Air Line Ry., supra Note 35, p. 266.

³⁷Bankruptcy Act of 1938, & 57(j); 11 U.S.C.A., & 93(j). And see, Bankruptcy Act of 1938, § 67(b); 11 U.S.C.A. & 107(b).

³⁸In re Lykens Hosiery Mills, supra Note 28, p. 899. See, Gardner v. New Jersey, 1947, 329 U.S. 565, 579-581 and Sword Line, Inc. v. Industrial Commissioner of State of New York, 1954, 212 F.

2d 865, 868-870, which recognize the traditional control of the bankruptcy court over interest not originating in contract and the right to deny it, if inequitable to other creditors.

³⁹The condition of affairs in this case illustrates the point made here. The debtor listed as taxes due the United States, \$38,853.13. The claim actually filed by the Government for all taxes was \$41,397.21. The lienable claim finally asserted and allowed by the Court was \$17,015.58. The [44] total debts scheduled, including taxes, were \$373,981.07. As of today, the Referee's records show claims allowed in the sum of \$400,926.62. The value of the assets realized by the Trustee, as shown by his interim report of August 1, 1958, is \$143,003.59. While the preferred claims have been paid, no dividend has been paid on the general claims.

⁴⁰The Government's tax lien is good, even if the taxes were incurred while the debtor was insolvent. (Bankruptcy Act of 1938, § 67(b); 11 U.S.C.A., § 107(b)). And, while the taxes were subordinated to claims for (1) costs of administration, (2) wage claims and (3) costs of certain contests in reorganization (Bankruptcy Act of 1938 §§ 64(a), 67(c); 11 U.S.C.A. § 104(a), 107(c)), they are not affected by discharge (Bankruptcy Act of 1938, § 17(a)(1), 11 U.S.C.A., § 35(a)(1)).

⁴¹The idea that the allowance of postbankruptcy interest goes counter to the principle of "equality" was aptly expressed by the Supreme Court in *Bank vs. Sprague*, *supra* Note 25, p. 411:

"It is in order to assure equality among creditors as of the date of insolvency that interest accruing thereafter is not considered."

And Mr. Justice Douglas has summed up the theory of "equality" in bankruptcy in a noted apothegm:

"But the theme of the Bankruptcy Act is equality of distribution." (*Sampsell vs. Imperial Paper Co.*, 1941, *supra* Note 36, p. 219).

[Endorsed]: Filed October 1, 1958. [45]

In the District Court of the United States, Southern
District of California, Central Division

No. 69054-Y

In the Matter of

LELAND CAMERON, aka L. H. CAMERON, dba
ALLIED AIRCRAFT CO.,

Bankrupt.

FINDINGS OF FACT, CONCLUSIONS OF
LAW AND ORDER ON PETITION TO RE-
VIEW REFEREE'S ORDER OF AUGUST
8, 1958, RE CLAIM No. 139

At Los Angeles, in Said District, on the 13th Day
of October, 1958.

This matter came on to be heard before the undersigned United States District Judge on September 15, 1958, upon the petition of Irving I. Bass, Trustee in Bankruptcy of the above estate, to review the order of Joseph J. Rifkind, Referee in Bankruptcy, dated August 8, 1958. The Trustee in Bankruptcy appeared by and through his attorneys, Quittner, Stutman, & Treister, by George M. Treister. Claimant, Director of Internal Revenue, appeared by and through his attorney, Laughlin E. Waters, Esq., United States Attorney, Edward R. McHale, Esq., and Jack Roberts, all by Jack Roberts. The Court having considered the record including the certificate of the Referee in Bankruptcy, and having considered the memoranda filed

herein and the arguments of counsel, now, therefore, does hereby make its Findings of Fact, Conclusions of Law and Order as follows: [46]

Findings of Fact

I.

The Involuntary Petition in Bankruptcy instituting the above proceedings was filed November 14, 1955, and an order of adjudication in bankruptcy was duly entered thereafter. Irving I. Bass is the duly elected, qualified and acting Trustee in Bankruptcy.

II.

The Director of Internal Revenue filed his claim for federal taxes owing by the bankrupt in these proceedings. Said claim was assigned number 139 on the docket of the Referee in Bankruptcy. Said claim included a claim for taxes supported by a tax lien, which said lien arose and was recorded prior to the date of bankruptcy, and further included federal taxes unsupported by any lien.

III.

The Trustee in Bankruptcy has heretofore paid to the Director of Internal Revenue the entire principal amount owing on the tax lien claim and the tax claim not secured by lien, and has further paid all interest accruing upon the said taxes and tax lien to the date of bankruptcy, to wit, November 14, 1955. The Trustee objected to claim number 139 insofar as said claim included interest accruing

upon the tax lien portion thereof from and after the date of bankruptcy. The amount of the interest accruing upon the tax lien portion of claim number 139 subsequent to the date of bankruptcy is the sum of \$2,453.64.

Upon the foregoing Findings of Fact, the Court makes the following Conclusions of Law:

Conclusions of Law

I.

Interest ceases to accrue as of the date of bankruptcy upon all tax claims, including both those supported by tax liens [47] arising and recorded prior to bankruptcy and tax claims not supported by liens.

II.

Claim number 139 should be disallowed to the extent that said claim includes interest accruing on taxes subsequent to November 14, 1955. The amount of post-bankruptcy interest accruing on the tax lien portion of claim number 139, to wit, the sum of \$2,453.64, should, accordingly, be disallowed.

III.

The order of Joseph J. Rifkind, Referee in Bankruptcy, dated August 8, 1958, allowing claim number 139, should be reversed, to the extent that said order allows post-bankruptcy interest in the sum of \$2,453.64 on the tax lien portion of claim number 139.

Upon the foregoing Findings of Fact and Conclusions of Law, this Court hereby makes its order, as follows:

Order

Ordered, that the order of Joseph J. Rifkind, Referee in Bankruptcy, dated August 8, 1958, be, and the same hereby is, reversed to the extent that said order allows post-bankruptcy interest in the sum of \$2,453.64 upon the tax lien portion of claim number 139; and it is further

Ordered, that the proceedings are hereby remanded to the said Referee in Bankruptcy with directions to disallow claim number 139 to the extent that said claim includes post-bankruptcy interest in the sum of \$2,453.64 upon the tax lien portion of the said claim number 139.

/s/ LEON R. YANKWICH,
Chief Judge, United States
District Court.

Affidavit of service by mail attached.

Lodged October 6, 1958.

[Endorsed]: Filed and entered October 13, 1958.

[Title of District Court and Cause.]

NOTICE OF APPEAL

To: Irving I. Bass, Trustee in Bankruptcy, and his Attorneys, Quittner, Stutman & Treister, 639 South Spring Street, Los Angeles 14, California:

You, and Each of You, Are Hereby Notified that the United States of America, a claimant in the above-entitled bankruptcy proceedings, does hereby appeal to the United States Court of Appeals for the Ninth Circuit from the Findings of Fact, Conclusions of Law and Order on Petition to Review Referee's Order of August 8, 1958, Re Claim No. 139, entered in this action on October 13, 1958, reversing a decision of the Referee in Bankruptcy, which had allowed interest in the sum of \$2,453.64 subsequent to bankruptcy on a lien of the United States, which had arisen prior to bankruptcy. [50]

Dated: November 12, 1958.

LAUGHLIN E. WATERS,
United States Attorney;

EDWARD R. McHALE,
Asst. United States Attorney,
Chief, Tax Division;

JACK ROBERTS,
Attorney,
Internal Revenue Service;

/s/ EDWARD R. McHALE,
Attorneys for
United States of America.

Affidavit of service by mail attached.

[Endorsed]: Filed November 12, 1958. [51]

[Title of District Court and Cause.]

CERTIFICATE BY THE CLERK

I, John A. Childress, Clerk of the above-entitled Court, hereby certify that the items listed below constitute the transcript of record on appeal to the United States Court of Appeals for the Ninth Circuit, in the above-entitled case:

A. The foregoing pages numbered 1 to 57, inclusive, containing the original:

Claim of United States for Taxes, filed 1/26/56, with letter attached from U. S. Treasury Department.

Objections to Claims and notice of hearing of objections re claim 139, filed 6/18/58.

Stipulation of Facts, filed 8/8/58.

Letter dated 7/14/58 addressed to Referee Rifkind, from George M. Treister.

Memorandum Opinion of Referee re objection to claim No. 139 of Director of Internal Revenue filed 7/28/58.

Certificate of mailing re memorandum opinion, etc.

Findings of Fact, Conclusions of Law and Order on Trustee's objection to Claim of District Director of Internal Revenue, filed 8/8/58.

Petition to Review Order of Referee re objections to Claim No. 139.

Notice of Filing Certificate on Review from Referee's Order dated 8/8/58.

Certificate on Review from Referee's Order dated 8/8/58.

Opinion, filed 10/1/58 (Judge Yankwich).

Findings of Fact, Conclusions of Law and Order on Petition to Review Referee's Order of 8/8/58, re Claim No. 139, filed 10/13/58.

Notice of Appeal.

Motion for extension of time to docket cause on appeal and order.

Designation of contents of Record on Appeal.

B. Copy of "Docket Entries."

I further certify that my fee for preparing the foregoing record, amounting to \$1.60 has not been paid by appellant.

Dated: February 2, 1959.

JOHN A. CHILDRESS,
Clerk;

[Seal] By /s/ WM. A. WHITE,
Deputy Clerk.

[Endorsed]: No. 16348. United States Court of

Appeals for the Ninth Circuit. United States of America, Appellant, vs. Irving I. Bass, Trustee in Bankruptcy of the Estate of Leland Cameron, Bankruptcy, Appellee. Transcript of Record. Appeal from the United States District Court for the Southern District of California, Central Division.

Filed and Docketed: February 4, 1959.

/s/ PAUL P. O'BRIEN,
Clerk of the United States Court of Appeals for the
Ninth Circuit.

In the United States Court of Appeals
for the Ninth Circuit

No. 16348

UNITED STATES OF AMERICA,

Appellant,

vs.

IRVING I. BASS, Trustee,

Appellee,

In the Matter of

LELAND CAMERON, a/k/a L. H. CAMERON,
d/b/a ALLIED AIRCRAFT CO.,

Bankrupt.

STATEMENT OF POINTS UPON WHICH THE
UNITED STATES INTENDS TO RELY
UPON APPEAL

In accordance with Rule 17 of the Rules of the United States Court of Appeals for the Ninth Circuit the United States hereby sets forth the following statement of points upon which it intends to rely upon appeal:

The District Court erred in holding that the United States is not entitled to postbankruptcy interest upon its tax claims secured by liens existing prior to bankruptcy.

Dated: February 5, 1959.

CHARLES K. RICE,

Assistant Attorney General,
Tax Division;

LAUGHLIN E. WATERS,
United States Attorney;

EDWARD R. McHALE,
Assistant U. S. Attorney,

/s/ EDWARD R. McHALE,
Attorneys for Appellant,
United States of America.

Affidavit of service by mail attached.

[Endorsed]: Filed February 6, 1959.

**In the United States Court of Appeals
for the Ninth Circuit**

UNITED STATES OF AMERICA, APPELLANT,

v.

IRVING I. BASS, Trustee in Bankruptcy of the Estate
of Leland Cameron, Bankrupt, APPELLEE

ON APPEAL FROM THE ORDER OF THE UNITED STATES
DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALI-
FORNIA

BRIEF FOR THE APPELLANT

CHAS. K. RICE,
Assistant Attorney General,

LEE A. JACKSON,
I. HENRY KUTZ,
KARL SCHMEIDLER,

*Attorneys,
Department of Justice,
Washington 25, D. C.*

LAUGHLIN E. WATERS,
United States Attorney.

EDWARD R. McHALE,
ROBERT H. WYSHAK,
Assistant United States Attorneys.

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**In the United States Court of Appeals
for the Ninth Circuit**

No. 16,348

UNITED STATES OF AMERICA, APPELLANT,

v.

IRIVING I. BASS, Trustee in Bankruptcy of the Estate
of Leland Cameron, Bankrupt, APPELLEE

*ON APPEAL FROM THE ORDER OF THE UNITED STATES
DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALI-
FORNIA*

BRIEF FOR THE APPELLANT

OPINIONS BELOW

The memorandum opinion of the referee (R. 8-9) and the findings of fact, conclusions of law and order of the referee (R. 11-14) are not officially reported. The opinion of the District Court (R. 19-41) is reported at 166 F. Supp. 400.

JURISDICTION

This appeal involves a lien claim by the United States for unpaid federal taxes and interest against the property of Leland Cameron, d/b/a Allied Aircraft Company, filed with the trustee in bankruptcy. (R. 3-5.)

On August 8, 1958, the referee in bankruptcy allowed the secured claim of the United States in the amount of \$19,763.31, representing \$17,015.58 of unpaid taxes, \$294.09 of interest accruing on such unpaid taxes prior to the petition in bankruptcy and \$2,453.64 of interest accruing on such unpaid taxes after filing of the petition in bankruptcy to the date of payment. (R. 11-14.) The trustee on August 15, 1958, filed a petition to review the order of the referee insofar as the referee allowed post-petition interest on the lien portion of the claim of the United States. (R. 14-15.) On October 6, 1958, the District Court entered an order reversing the order of the referee to the extent that the referee allowed post-bankruptcy interest. (R. 45.) The proceeding is brought to this Court by notice of appeal filed November 12, 1958. (R. 46.) The amount involved is more than \$500. The jurisdiction of this Court is invoked under 28 U.S.C., Section 1291, and Section 24 of the Bankruptcy Act, as amended.

QUESTION PRESENTED

Whether the United States is entitled to post-bankruptcy interest on unpaid taxes where its claims for taxes and interest have been secured by a lien which arose and was perfected prior to the petition in bankruptcy.

STATUTES INVOLVED

The relevant provisions of the Bankruptcy Act, as amended, and the Internal Revenue Code of 1954 are set forth in Appendix, *infra*.

STATEMENT

Upon the trustee's objections to the claims of the United States, after hearing, the referee ruled upon

the allowance of certain secured claims of the United States for post-bankruptcy interest. The relevant facts were stipulated by the parties (R. 9-11) and, as stipulated, were found by the referee (R. 12). The relevant undisputed facts may be stated as follows:

On November 14, 1955, a petition in bankruptcy was filed against Leland Cameron, also known as L. H. Cameron, doing business as Allied Aircraft Company. (R. 12, 19.) Previously, on August 31, 1955, the District Director of Internal Revenue had assessed unpaid withholding and F.I.C.A. taxes against the taxpayer for the second quarter of 1955 in the amount of \$17,015.58. (R. 3, 9-10, 12, 19.) Notice of the assessment with demand for payment was made on September 8, 1955. No payment was made at the time. (R. 10, 12.) A lien for the assessment was perfected prior to the filing of the petition in bankruptcy. (R. 10, 12, 19-20, 43.)

The District Director filed a claim against the bankrupt estate on January 26, 1956, for federal taxes owing by the bankrupt. This claim included a claim for \$17,015.58 of unpaid withholding and F.I.C.A. taxes supported by a tax lien which arose and was perfected prior to bankruptcy and for \$24,381.63 of withholding, F.I.C.A. and unemployment taxes unsupported by any lien. (R. 3-5, 43.) The trustee paid to the District Director between March 20, 1957, and July 9, 1958, the entire principal amount owing on the tax lien and on the tax claim not secured by any lien and further paid \$294.39 of interest accruing upon the tax lien and interest accruing upon the unsecured tax claim to the date of bankruptcy, November 14, 1955. (R. 3-4, 10, 12, 19, 43.) The claim of the United States also included post-bank-

ruptcy interest accruing upon its tax lien from the date of bankruptcy to the date of payment of its lien. However, no claim was made by the United States for post-bankruptcy interest on its tax claim not secured by a lien. (R. 3-4, 12, 43-44.)

The validity and principal amount of the lien of the United States perfected prior to bankruptcy was not disputed by the trustee. The trustee objected to the payment of the interest accrued on the tax lien after the date of the filing of the petition in bankruptcy. (R 7-8, 9-10, 20, 43-44.) After hearing, on notice, the referee on August 8, 1958, concluded that a lien in favor of the United States in the amount of \$17,015.58 arose at the time the assessment was made on August 31, 1955, and became a lien upon all property and rights to property, whether real or personal, belonging to the bankrupt, Leland Cameron; that this lien is valid against the trustee; and that interest accrued to the date of payment on a secured claim such as a tax lien and should be allowed as part of the lien claim of the United States. The referee then ordered that the claim of the United States for interest on the taxes which became liens prior to the date on which the bankrupt filed his petition be allowed, and that the amount of \$2,453.64, remaining due, owing and unpaid be paid by the trustee to the United States. (R. 13.)

The trustee petitioned the District Court for review of the referee's order. (R. 14-15.) The District Court reversed the order of the referee to the extent that the referee allowed post-bankruptcy interest in the amount of \$2,453.64 upon the tax lien portion of the claim of the United States and further ordered that the proceedings be remanded to the referee with directions to

disallow the claim of the United States to the extent that the claim includes post-bankruptcy interest in the amount of \$2,453.64 upon the tax lien portion of such claim. (R. 45.)

STATEMENT OF POINT TO BE URGED

The District Court erred in reversing the order of the referee in bankruptcy and in holding that the United States is not entitled to post-bankruptcy interest upon its tax claim secured by a lien existing prior to the filing of the petition in bankruptcy.

SUMMARY OF ARGUMENT

The general principles of the law of commercial transactions provide that a debtor should pay interest on his obligation to the date of payment of the principal amount owing. However, in bankruptcy there has been an exception to these general principles so as to suspend the payment of post-petition interest. This exception, in turn, has been qualified by three situations where post-petition interest has been allowed to certain creditors, namely, where the bankrupt proves to be solvent, and in the case of secured claims, where the security produces income during the bankruptcy administration and where the value of the security is more than sufficient to pay the principal amount of the secured claim. In the present case the United States contends that by virtue of a pre-existing perfected tax lien it is a secured creditor, with the same right as other secured creditors to post-petition interest where the amount of the security is sufficient to satisfy the claim for interest in addition to principal.

The Government's tax lien under the taxing statutes, here the Internal Revenue Code of 1954, is

a fixed charge which is imposed upon and attaches to property and rights to property of the debtor. Under the taxing statutes if any amount of tax imposed is not paid when due interest is imposed until the amount of the tax owing is paid. Such interest on the unpaid tax obligation is treated as part of the tax and is assessed, collected and paid in the same manner as the tax. Such interest is also included as a part of the tax lien. In the present case at the time the petition in bankruptcy was filed the taxpayer's obligation to pay interest was secured by a perfected federal tax lien on all property and rights to property of the taxpayer, which lien was valid against the trustees in bankruptcy.

The Bankruptcy Act, as amended, accords different treatment to secured and unsecured claims. A tax lien valid against the trustee at the time of bankruptcy is not invalidated or discharged by an adjudication of bankruptcy. On the contrary, its validity is recognized and protected by Section 67b of the Bankruptcy Act. Similarly, with one exception set forth in Section 67c postponing the payment of certain statutory liens, including tax liens, on personal property not reduced to possession to two other classes of creditors, payment of the tax lien is not governed by the provisions of the Bankruptcy Act (such as Section 64) which govern payment to unsecured creditors. Instead, payment of the tax lien is governed by the same common law principles which apply to other secured creditors, i.e., according to the time the lien becomes perfected. There is no provision in the Bankruptcy Act which permits a tax lien to be disregarded or treated as a mere unsecured priority claim, or to discharge part of the amount owing under the lien. Further, with the

one exception of Section 67c, there is no provision in the Bankruptcy Act which distinguishes between the treatment (including the payment) of federal tax liens and other liens, such as consensual liens. Thus, the District Court erred in holding that the tax lien of the United States is not entitled to payment of post-bankruptcy interest from the assets of the bankrupt estate.

ARGUMENT

The United States Is Entitled to Post-Bankruptcy Interest on Its Tax Claims Secured by Liens Filed Prior to Bankruptcy

A. Introduction

The general principles of the law of commercial transactions have long provided that a debtor should pay interest on his obligations to the date of payment. However, an exception to this general principle was invoked very early as a fundamental principle of the English bankruptcy system, that the payment of interest is suspended where a debtor is so hopelessly insolvent that he is unable to pay even the principal and interest accruing on an unsecured claim prior to bankruptcy. This exception suspending the payment of interest in turn was held not to apply under certain conditions, namely, where the estate proved to be solvent (*Bromley v. Goodere*, [1734] 1 Atk. 75, 26 Eng. Reports Full Reprint 49; *Ex Parte Mills*, [1793] 2 Ves. Jun. 295, 30 Eng. Reports Full Reprint 640), where income is derived from the security which can be applied to the payment of post-bankruptcy interest (*Ex Parte Penfold*, [1851] 4 De G. & Sm. 282, 64 Eng. Reports Full Reprint 834) and where the security is sufficient to satisfy both the principal and interest on the secured claim (*In re London, Windsor and Greenwich Hotels Co.* (Quarter-

maine's Claim), [1882] 1 Ch. 639, 61 Law Journal Reports (N.S.) (Part I) 233).

The above principles of the English bankruptcy system have been followed by the courts of this country. *Sexton v. Dreyfus*, 219 U.S. 339, 344; *New York v. Saper*, 336 U.S. 328, 330. Thus we find in the American decisions the general statement that interest stops as of the date of the filing of the petition in bankruptcy. This general rule rested upon the theory that the affairs of the bankrupt are supposed to be wound up as of the date of bankruptcy, that the delay in payment of interest is not caused by an act of the debtor but by an act of the law for the mutual benefit of creditors, and that it would be inequitable to permit the payment of interest to certain creditors which would increase the proportion of the assets to which these creditors are entitled at the expense of the other creditors while the estate is in the process of administration. *Sexton v. Dreyfus*, *supra*; *New York v. Saper*, *supra*; *Vanston Committee v. Green*, 329 U.S. 156, 163-164; 3 Collier on Bankruptcy (14th ed.), Section 63.16; 6 Remington on Bankruptcy (Sixth ed.), Sections 726, 2827 and 2869.

However, the American decisions have also followed the English rule of law and have allowed post-bankruptcy interest where the alleged bankrupt proves to be solvent, where the security produces income during the bankruptcy administration and where the value of the security is more than sufficient to pay the principal of the secured claim. In the last instance, payment of post-petition interest to a secured creditor has been allowed on the grounds that the collateral is as much security for the payment of interest on the obli-

gation as it is for the payment of the principal of the obligation, and that it is not inequitable to pay interest to a secured creditor where there is a surplus of security available before making such surplus available to satisfy the claims of junior creditors. Recently, this Court in *Palo Alto Mutual Savings and Loan Ass'n v. Williams*, 245 F. 2d 77, and in *Jefferson Standard Life Ins. Co. v. United States*, 247 F. 2d 777, 780, overruled an earlier decision to the contrary and held that a secured creditor is entitled to post-bankruptcy interest. See also *Coder v. Arts*, 213 U.S. 223, 245; *Castaner v. Mora*, 234 F. 2d 710, 712 (C.A. 1st); *Kagan v. Industrial Washing Machine Corp.*, 182 F. 2d 139, 146 (C.A. 1st); *Eddy v. Prudence Bonds Corp.*, 165 F. 2d 157, 160 (C.A. 2d); *Littleton v. Kincaid*, 179 F. 2d 848 (C.A. 4th), certiorari denied, 340 U.S. 809; *Oppenheimer v. Oldham*, 178 F. 2d 386, 389 (C.A. 5th); *United States v. Paddock*, 187 F. 2d 271, 276 (C.A. 5th); *In re Macomb Trailer Coach*, 200 F. 2d 611, 613 (C.A. 6th), certiorari denied, *sub nom. McInnis, Trustee v. Weeks*, 345 U.S. 958; *In re Inland Gas Corp.*, 241 F. 2d 374, 379 (C.A. 6th); *In re Chicago R. I. & P. Ry.*, 155 F. 2d 889, 892 (C.A. 7th), reversed on other grounds, *sub nom. Fleming v. Traphagen*, 329 U.S. 686.¹

Accordingly, we submit that allowance of post-bankruptcy interest to a secured creditor, where the

¹ In view of this exception which recognizes and allows post-petition interest in bankruptcy in the case of secured claims, the discussion in *Sword Line v. Industrial Commissioner of State of N.Y.*, 212 F. 2d 865 (C.A. 2d), certiorari denied, 348 U.S. 830, and *National Foundry Co. of N.Y. v. Director*, 229 F. 2d 149 (C.A. 2d), denying the existence of interest on non-lien claims clearly has no relevancy here. Cf. *Salsbury Motors v. United States*, 210 F. 2d 171, 174 (C.A. 9th), certiorari denied, 347 U.S. 953.

amount of the security is sufficient, is firmly entrenched as a fundamental principle of law by the bankruptcy courts of England and this country. It is the position of the government in the present case that where it has a pre-existing tax lien it should be treated as a secured creditor, with at least the same rights as other secured creditors to post-petition interest, i.e., if other secured creditors are entitled to post-bankruptcy interest under certain circumstances, the Government should also be entitled to post-bankruptcy interest under the same circumstances.

We also submit that *New York v. Saper, supra*, is not controlling here. In *Saper* the Government's tax claims were not secured by any lien. In that case the Government sought to obtain post-bankruptcy interest solely upon the ground that its tax claims as such were entitled to interest to the date of payment. The Supreme Court denied the Government's contention on the ground that by the amendments made by the Act of June 22, 1938, the so-called Chandler Act, to Sections 57 and 64 of the Bankruptcy Act Congress intended to treat tax claims for this purpose similarly to priority claims and did not contemplate any exception in favor of tax claims from the general rule against allowing post-bankruptcy interest.

The *Saper* decision does not hold that by the Chandler Act Congress intended to remove the long-established distinction between unsecured (albeit priority) claims and secured claims, or that Congress intended to remove a tax lien from the status of a secured claim.² That

² For the same reasons, among others, *United States v. General Engineering & Mfg. Co.*, 188 F. 2d 80 (C.A. 8th), affirmed *per curiam*, 342 U.S. 912; *United States v. Edens*, 189 F. 2d 876 (C.A. 4th), affirmed *per curiam*, 342 U.S. 912; *Pavone Textile Corp. v.*

this is so is expressed in *Oppenheimer v. Oldham*, *supra*, p. 389, as follows:

The above holding is not in conflict with the decision of the Supreme Court in *City of New York v. Saper, Trustee in Bankruptcy*, 336 U. S. 328, 69 S. Ct. 554, 559. That decision dealt with the propriety of interest on tax claims after bankruptcy, and turns mainly on changes in the statute law wrought principally by the Chandler Act, 11 U.S.C.A. § 1 et seq. The Court points out before the enactment of that act the lower courts had been allowing interest on tax claims until payment, "either as a matter of practical convenience or because Sec. 46, sub. a gave those claims absolute priority and dispensed with proof." The law formerly put tax liabilities in a sovereign class above the status of mere claims in bankruptcy. In fact the filing of a claim was unnecessary, but nevertheless taxes were payable as imperative obligations commanding absolute priority. The act of 1926 reinforced by the Chandler Act reversed that highly favored position of tax liabilities, which instead were shifted to the rank of simple claims in bankruptcy, and the Court concluded that the continued allowance of interest on tax claims after bankruptcy would be inconsistent with such changes made in the framework of the bankruptcy law.

Bloom, 302 N.Y. 206, 97 N.E. 2d 755, affirmed *per curiam*, *sub nom. United States v. Bloom*, 342 U.S. 912, which denied post-petition interest upon the authority of *New York v. Saper*, *supra*, for proceedings by way of arrangement in reorganization and for a general assignment, are not applicable here since these cases did not involve lien claims.

Those considerations have no bearing on contractual debts presented as secured claims in bankruptcy. It has always been a fundamental principle of the bankruptcy law that the property rights and interests designated as liens and pledges, when valid in bankruptcy, shall not be impaired in the administration of a bankrupt estate. The Chandler Act manifests no intent to deviate from that principle. It is true that in the revision of Sec. 67, sub. d the Chandler Act did not retain the old language saying expressly that liens valid in bankruptcy shall "not be affected by anything herein", but that provision was simply declaratory of the obvious import reflected, and still reflected, frequently in the substantive terms of the law, and the omission of such redundancy is not significant.

See also *In re Macomb Coach*, *supra*, p. 613.

It is the position of the United States in the present case that by virtue of having perfected its tax lien prior to the petition in bankruptcy the United States is a secured creditor and as such is entitled to post-petition interest on its liened tax claim where there is a sufficient amount available to satisfy its lien for the taxes and interest owing to the date of payment.³ On the other hand, although the United States also was claiming \$24,381.63 of additional taxes owing by the bankrupt for which it did not have any lien prior to bankruptcy, the United States recognized the distinction between

³ In the present case no question arises as to the sufficiency of the amount available in the bankrupt estate to satisfy both the principal amount of the tax lien and the \$2,453.64 of post-petition interest.

an unsecured priority tax claim and a secured tax lien claim and did not claim post-bankruptcy interest on the unliened part of its tax claim. (R. 3-4, 43-44.) The District Court's disallowance of post-petition interest appears to be predicated upon the assumption that there is no relevant difference between an unsecured tax claim and a perfected tax lien and even if there were a tax lien does not have the same status as a consensual lien. We submit that there is no support for the District Court's position either in the Internal Revenue Code of 1954 or in the Bankruptcy Act. Instead, the 1954 Code which creates the tax lien and vests the lien with certain property rights and powers which are lacking in the case of an unliened tax claim, and the Bankruptcy Act which distinguishes between a secured and an unsecured claim, fully support the position of the United States in this case. Accordingly, we shall first examine the nature of the Government's tax lien under the taxing statute.

B. *Nature of the Government's lien for taxes and interest*

The distinctions between a non-liened tax claim and a tax lien are deeply rooted in the statutes.

The lien in favor of the United States for taxes arises under Section 6321 of the Internal Revenue Code of 1954 (Appendix, *infra*), which provides as follows:

If any person liable to pay any tax neglects or refuses to pay the same after demand, the amount (including any interest, additional amount, addition to tax, or assessable penalty, together with any costs that may accrue in addition thereto) shall be a lien in favor of the United States upon

all property and rights to property, whether real or personal, belonging to such person.

Under Section 6322 of the 1954 Code (Appendix, *infra*) a federal tax lien arises at the time the assessment is made and shall continue until the liability for the amount so assessed is satisfied or becomes unenforceable by reason of lapse of time.

Where the United States has a tax lien its rights are enlarged and have matured to a much greater extent than where the United States is merely asserting a non-liened tax claim. The lien is a fixed charge which is imposed upon and attaches to the property and rights to property of the debtor; it affects a transfer to the United States of part of the taxpayer's property. "After the lien provided by the statute attaches, the property has in a sense two owners, the taxpayer and, to the extent of the lien, the United States." *United States v. City of Greenville*, 118 F. 2d 963, 965 (C.A. 4th). The non-liened tax claim of the United States, on the other hand, does not become a fixed charge on the taxpayer's property subject to the bankruptcy proceeding, but is merely an assertion by the United States of an amount owing to it by the taxpayers—a chose in action. On the other hand where, as here, the United States possesses a perfected tax lien prior to bankruptcy, the taxpayer's assets subject to the lien, to the extent that they ever become subject to the jurisdiction of the bankruptcy court (see Part C, *infra*), come into bankruptcy encumbered by the lien of the United States.

The formalities surrounding the creation of the lien of the United States are greater than those involved

in the assertion of an unliened claim. The tax lien of the United States does not arise or become perfected (choate) until a formal assessment is made, notice and demand are served upon the taxpayer and the latter neglects or refuses to pay the liability. *Brust v. Sturr*, 237 F. 2d 135 (C.A. 2d). A formal assessment comes into existence when an assessment officer signs the assessment certificate which is part of the summary record of assessment. The summary record of assessment identifies the taxpayer, the character of the liability assessed, the taxable period and the amount of the assessment.

The character of the tax liens of the United States is well established. In *Glass City Bank v. United States*, 326 U.S. 265, the Supreme Court discussed the nature of these liens under the Internal Revenue Code of 1939 (which provisions are substantially the same as the correlative provisions of the 1954 Code), as follows (p. 267):

By § 3670, 26 U.S.C., Congress impressed a lien upon "all property and rights to property, whether real or personal, belonging" to a tax delinquent. Stronger language could hardly have been selected to reveal a purpose to assure the collection of taxes. Not content with this language, however, Congress also provided that the lien should "continue until the liability for such amount is satisfied or becomes unenforceable by reason of lapse of time." 26 U.S.C., § 3671. These two sections read together indicate that a continuing lien covers property or rights to property in the delinquent's hands at any time prior to expiration. This is confirmed

by § 3678, which provides that “whether distraint proceedings have been commenced or not,” action to enforce the lien may be instituted against “any property and rights to property, whether real or personal, or to subject any such property and rights to property *owned by the delinquent*, or in which he *has* any right, title, or interest, to the payment of such tax.”

Further, in *United States v. New Britain*, 347 U.S. 81, the Court described these liens as follows (p. 84):

The federal tax liens are general and, in the sense above indicated, perfected. But the fact that one group of liens is specific and the other general in and of itself is of no significance in these cases involving statutory liens on real estate only. *United States v. City of Greenville*, 118 F. 2d 963, 964. A mortgage is a specific lien, yet “[a] statutory lien is as binding as a mortgage, and has the same capacity to hold the land so long as the statute preserves it in force.” *Rankin v. Scott*, 12 Wheat. 177, 179.

The same principles apply with equal force to federal tax liens on personal property as to liens on real property. See *United States v. Ball Construction Co.*, 355 U.S. 587, rehearing denied, 356 U.S. 934, reversing *per curiam*, 239 F. 2d 384 (C.A. 5th); *United States v. White Bear Brewing Co.*, 350 U.S. 1010, reversing *per curiam*, 227 F. 2d 359 (C.A. 7th); *United States v. Colotta*, 350 U.S. 808, reversing *per curiam*, 79 S. 2d 474 (Miss.); *United States v. Scovil*, 348 U.S. 218; *United States v. Liverpool & London Ins. Co.*, 348 U.S. 215;

United States v. Acri, 348 U.S. 211; *United States v. Security Tr. & Sav. Bk.*, 340 U.S. 47.

It is clear that the tax lien of the United States includes an obligation for interest.⁴ Section 6601(a) and (c) of the 1954 Code (26 U.S.C. 1952 ed., Supp. II, Sec. 6601) provides that if any amount of tax is not paid interest on such amount at the rate of six percent per annum shall be paid for the period from the last date prescribed for payment to the date paid. Paragraph (f) of Section 6601 provides that interest prescribed under this section shall be assessed, collected and paid in the same manner as the tax. *Big Diamond Mills Co. v. United States*, 51 F. 2d 721 (C.A. 8th); *Colorado Milling & Elevator Co. v. Howbert*, 57 F. 2d 769 (C.A. 10th). Section 6201(a) of the 1954 Code (26 U.S.C. 1952 ed., Supp. II, Sec. 6201) in turn includes interest as part of the amount of the tax which may be assessed, and Section 6321 of the 1954 Code, *supra*, provides that the Government's tax lien shall include any interest that may accrue in addition to the tax remaining unpaid. Thus, it is clear that interest accruing on unpaid taxes is included in and as an integral part of the tax lien of the United States to the same extent as the unpaid principal of the assessed tax liability.

⁴ In the present case the validity of the lien of the United States for interest was never questioned by the trustee or referee. Payment of interest up to the date of the filing of the petition in bankruptcy is not contested by the trustee. (R. 7-8, 8-9, 10, 12, 14-15, 43). On appeal the United States is contending that there was no basis for the District Court to disallow the balance of the interest due under the lien. Further, there is no dispute but that the amount of post-petition interest claimed is correct, if it is allowed. (R. 8-9, 10, 12, 17, 20, 44.)

In the present case the \$2,453.64 of accrued interest here in issue was included in the assessment by reasons of the above statutory provisions. There is no dispute, as the District Court found (R. 20, 43), as to the fact that the lien of the United States was fully perfected prior to the filing of the petition in bankruptcy on November 14, 1955, so that the trustee in bankruptcy took possession of the taxpayer's property subject to the tax lien. See Section 67b of the Bankruptcy Act, as amended (Appendix, *infra*).

Where the United State has a valid perfected lien it may be enforced against a taxpayer's property either by suit under Section 7403 of the 1954 Code (26 U.S.C. 1952 ed., Supp. II, Sec. 7403) or by levy and distraint under Section 6331 of the 1954 Code (26 U.S.C. 1952 ed., Supp. II, Sec. 6331) after notice of the assessment has been given to the taxpayer, demand has been made for payment and the taxpayer has neglected or refused to pay.⁵ *Detroit Bank v. United States*, 317 U.S. 329, 335; *Macatee, Inc. v. United States*, 214 F. 2d 717 (C.A. 5th).

Where the United States seeks to enforce its lien against property of the taxpayer its lien is considered to have become perfected as of the time the assessment is made. With respect to the relative priorities of secured creditors, including the United States, to the property of either a solvent or bankrupt taxpayer, the tax lien of the United States is on a par with other secured claims. The priorities of competing liens are governed by the time they become perfected. Ordi-

⁵ See *Commissioner v. Stern*, 357 U.S. 39, and *United States v. Bess*, 357 U.S. 51, where the Supreme Court emphasizes certain distinctions between proceedings in liened and non-liened tax cases.

narily the lien first in time is first in right, based on the common law principle that “a prior lien gives a prior claim, which is entitled to satisfaction out of the subject it binds.” *Rankin v. Scott*, 12 Wheat. 177, 179; *Michigan v. United States*, 317 U.S. 338; *United States v. New Britain*, *supra*. With respect to all classes of secured creditors, except those enumerated in Section 6323 of the 1954 Code (Appendix, *infra*), priority of the tax lien of the United States is determined as of the time the lien becomes perfected—i.e., when the assessment list is signed. With respect to the classes enumerated, i.e., mortgagees, pledgees, purchasers or judgment creditors, the priority of the Government’s tax lien is determined as of the time its notice of lien is filed.⁶

We turn next in Part C of our brief, *infra*, to the provisions of the Bankruptcy Act, as amended, which distinguish between the payment of secured claims and of unsecured (including priority) claims.

C. Status of liened claim under the Bankruptcy Act

One of the fundamental principles of bankruptcy law has been the different status accorded to secured claims from unsecured claims. The distinctions between these claims have remained in existence ever

⁶ No question arises in the present case as to the necessity for filing a notice of the tax lien. The record does not disclose that there were any creditors who were in the categories protected by Section 6323 and, as we have pointed out, *supra*, the District Court found that the tax lien was perfected prior to the filing of the petition in bankruptcy. (R. 20, 43.) In any event, as this Court has held, a trustee in bankruptcy does not come within any of the protected classes, and the United States is not required to file a notice of lien in order to preserve its status as a secured creditor with respect to the trustee. *United States v. England*, 226 F. 2d 205 (C.A. 9th).

since the early English bankruptcy law. The early English statutes were primarily concerned with protecting creditors against fraudulent debtors. Under the common law of those days the principal remedies of an unsecured creditor were those of attachment and execution. The common law favored the diligent creditor who made the first seizure. He was entitled to precedence to the full amount of his claim over creditors making later levies. This was found to work an injustice since, as commerce increased, situations frequently began to arise where a debtor had many creditors who had contributed to the common fund, instead of only a single creditor. Where there were many creditors all were considered to be entitled to share in what was left of the debtor's property. Accordingly, the early English bankruptcy acts provided for the seizure of the bankrupt's property by a common agent acting in behalf of the unsecured creditors and for a *pro rata* distribution among them of the proceeds of the bankrupt's goods seized. 1 Remington on Bankruptcy (Fourth ed.), pp. 4-21.

These acts, however, made no provision for the secured creditors. Apparently the latter were not considered as requiring the protection of the bankruptcy court since they already had a charge upon property belonging to the bankrupt. Thus, property subject to a security was not considered to be a part of the bankruptcy proceedings, and a secured creditor was left to his common law remedies to enforce his claims.⁷ This concept largely has carried over into the bankruptcy

⁷ It should be noted that the early English acts did not contain any provisions to avoid a preferential payment of an honest debt. See 1 Remington on Bankruptcy, *supra*.

laws of this country and remains in effect to the present time.

The present Bankruptcy Act, as amended, carefully preserves the many distinctions between secured and unsecured claims. In the present case we are concerned chiefly with Sections 57, 60, 64, 67 and 70 of the Bankruptcy Act, as amended (11 U.S.C. 1952 ed., Secs. 93, 96, 104, 107 and 110). Section 70 deals with the title of the bankrupt's property which vests in the trustee; Section 57 deals with the proof and allowance of claims which an unsecured claimant must make and which a secured claimant may elect to make; Section 60 deals with preferred creditors; Section 64 deals with the payment of unsecured claims and specifically with the order of priority among certain classes of unsecured creditors; and Section 67 deals with liens and fraudulent transfers. As we shall demonstrate, *infra*, secured creditors are not required to be subject to the provisions of Sections 57 and 64 relating to the filing and proving of claims and to the payment of claims.

The trustee in bankruptcy takes possession of all property and rights to property of the bankrupt as of the date the bankruptcy proceeding commences. Under Section 70c, *supra*, the trustee is vested with the rights, remedies and powers of a creditor holding a lien on the bankrupt's property by legal or equitable proceedings. The trustee's title is subject to all valid liens, claims and equities. *Hewitt v. Berlin Machine Works*, 194 U.S. 296, 302-303; *Security Warehousing Co. v. Hand*, 206 U.S. 415, 423; *United States v. Sampsell*, 153 F. 2d 731, 735 (C.A. 9th); *In re Knox-Powell-Stockton Co.*, 160 F. 2d 979, 982 (C.A. 9th); *Commercial Credit Co. v. Davidson*, 112 F. 2d 54, 56 (C.A. 5th); *In re Van*

Winkle, 49 F. Supp. 711, 713-714 (W.D. Ky.). The trustee also may assert all the defenses against secured creditors which were available to the bankrupt plus those provided in Sections 60 and 67d, *supra*, to set aside preferences, fraudulent conveyances and other voidable transfers.

In order to share in the distribution of the bankrupt estate an unsecured creditor (including one who has a priority under Section 64, *supra*), must file and prove his claim under Section 57, *supra*. Secured creditors are not required to file or prove their claims under Section 57. Instead, a secured creditor has a choice. In general, he may remain out of the bankruptcy proceedings and not file or prove his claim but rely solely upon his security. Or he may credit the bankrupt estate with the value of his security and prove his claim as a secured claim. He may also claim the value of his security and share in the general assets as to the unsecured balance. Finally, he may surrender his security and prove his claim as an unsecured creditor. The right of the secured creditor to collect from property of the bankrupt is set forth by the Supreme Court in *United States Bank v. Chase Bank*, 331 U.S. 28, 33, as follows:

Under these provisions, there are several avenues of action open to a secured creditor of a bankrupt. See 3 Collier on Bankruptcy (14th ed.) pp. 149-157, 255-259. (1) He may disregard the bankruptcy proceeding, decline to file a claim and rely solely upon his security if that security is properly and solely in his possession. *In re Cherokee Public Service Co.*, 8 Cir., 94 F. 2d 536; *Ward v. First Nat. Bank*, 202 F. 609. (2) He must

file a secured claim, however, if the security is within the jurisdiction of the bankruptcy court and if he wishes to retain his secured status, inasmuch as that court has exclusive jurisdiction over the liquidation of security. *Isaacs v. Hobbs Tie & Timber Co.*, 282 U.S. 734. (3) He may surrender or waive his security and prove his entire claim as an unsecured one. *In re Medina Quarry Co.*, 179 F. 929; *Morrison v. Rieman*, 249 F. 97. (4) He may avail himself of his security and share in the general assets as to the unsecured balance. *Merrill v. National Bank of Jacksonville*, 173 U.S. 131; *Ex Parte City Bank*, 3 How. 292, 315.

Brans v. City of Dallas, Texas, 217 F. 2d 640 (C.A. 5th); *DeLaney v. City and County of Denver*, 185 F. 2d 246, 251 (C.A. 10th).

Upon commencement of a bankruptcy proceeding the bankruptcy court acquires exclusive jurisdiction over the bankrupt's property. The bankrupt estate has been held to include only the unencumbered assets of a bankrupt administered in bankruptcy as distinguished from assets dedicated to the payment of secured obligations. *In re Quaker City Uniform Co.*, 134 F. Supp. 596 (E.D. Pa.), reversed on other grounds, 238 F. 2d 155 (C.A. 3d), certiorari denied, 352 U.S. 1030. The bankruptcy court has jurisdiction, among other things, to exercise control over the administration of such unencumbered assets, allow or disallow claims, to distribute the bankrupt estate, etc. See Section 2 of the Bankruptcy Act, as amended (11 U.S.C. 1952 ed., Sec. 11). Thus, an unsecured creditor may collect on his claim only by submitting in full to the jurisdiction of the bankruptcy court.

A secured creditor, on the other hand, is not similarly restricted. Where the secured creditor elects to rely solely on his security and elects not to file a proof of claim, and the property subject to the lien is either real property or personal property in the possession of the secured creditor, the bankruptcy court does not obtain jurisdiction to determine the validity or correctness of the lien. Instead, in such instances the trustee must bring a plenary action for this purpose. But if the property subject to the lien comes into possession of the bankruptcy court, we agree that the bankruptcy court may determine the correctness and validity of the lien. However, in such instances Sections 2a(20) and 69c (11 U.S.C. 1952 ed., Secs. 11 and 109) of the Bankruptcy Act, as well as the report of the House Committee on the Judiciary in reporting the so-called Chandler Act, H. Rep. No. 1409, 75th Cong., 3d Sess., pp. 11-12, 19, distinguish between the extensive jurisdiction of the bankruptcy court over property of the bankrupt estate subject to unsecured claims and its more limited jurisdiction over property subject to secured claims. The jurisdiction of the bankruptcy court in the latter situation is primarily directed only to such matters as the preservation of a bankrupt's property subject to liens, the determination of the validity of such liens, their payment and the payment of the expenses of ancillary administration. Once the correctness and validity of the lien is established the bankruptcy court does not have jurisdiction to invalidate the lien or prevent its enforcement. *Arnold v. Phillips*, 117 F. 2d 497, 501 (C.A. 5th), certiorari denied, 313 U.S. 583; *Blue Ridge Lumber Products v. Nelson*, 213 F. 2d 451, 453 (C.A. 2d); *United States v. Heffron*, 158 F. 2d 657

(C.A. 9th). Thus, even if the security has passed into the possession of the trustee, and the lien claimant may assert his rights only in the bankruptcy court, nevertheless, even in such an instance, since Section 57 does not relate to secured claims (*Allen v. See*, 196 F. 2d 608, 610 (C.A. 10th)), a secured creditor is not required to file proof of a secured claim. Instead, he may file an intervening petition. *DeLaney v. City and County of Denver*, *supra*, pp. 251-252; *Brans v. City of Dallas, Texas*, *supra*; *Gotkin v. Korn*, 182 F. 2d 380, 382 (C.A. D. C.) *California State Board of Equal. v. Coast Radio Prod.*, 228 F. 2d 520, 525-526 (C.A. 9th); *United States v. England*, 226 F. 2d 205 (C.A. 9th).

Where at the commencement of a bankruptcy proceeding a secured creditor (including the United States with respect to a tax lien) has possession of real or personal property subject to a valid lien and elects not to file a proof of secured claim but seeks to satisfy his lien out of the security, his failure to file does not deprive him of his secured status. *Goggin v. California Labor Div.*, 336 U.S. 118; *United States v. Eiland*, 223 F. 2d 118 (C.A. 4th); *In re Brokol Manufacturing Co.*, 221 F. 2d 640 (C.A. 3d); *United States v. England*, *supra*. Further, the filing of a proof of secured claim where the property is in possession of the bankruptcy court will not deprive him of his secured status. *Reconstruction Finance Corp. v. Cohen*, 179 F. 2d 773, 776-777 (C.A. 10th).⁸

⁸ Where, as here, an assessment is made and a tax lien arises prior to the bankruptcy proceeding, the United States has the status of a secured creditor. On the other hand, where an assessment is not made until after the bankruptcy proceeding commences, the taxpayer's property is not subject to the tax lien as of the date of the filing of the petition in bankruptcy, and the trustee takes

If a secured creditor may satisfy his lien out of the property subject to the lien by reason of his possession, to pay him less than the full amount of his lien, as we contend the District Court erred in doing in the present case, would deprive the secured creditor of his rights under the lien based solely upon the happenstance as to whether the creditor or trustee first obtained possession of the property. We submit that no provision in the Bankruptcy Act subjects a secured creditor's substantial rights to a race between him and the trustee, and the cases cited above do not indicate that such a race is determinative of this question.

As we mentioned, *supra*, the Bankruptcy Act, as amended, also distinguishes between unsecured and secured creditors for purposes of payment. The payment to unsecured creditors is governed by Section 64, *supra*, which, among other things, establishes priorities among certain classes of unsecured creditors. On the other hand, with one exception discussed subsequently, neither Section 64 nor any other provision of the Bankruptcy Act governs the order of payment of secured creditors. Instead, payment to them is based upon the common law principle of first in time is first in right. *In re Knox-Powell-Stockton Co.*, 100 F. 2d 979, 982 (C.A. 9th); *DeLaney v. City and County of Denver*, 185 F. 2d 246, 240-250 (C.A. 10th); *City of Dallas v. Ryan*, 62 F. 2d 959 (C.A. 5th); *In re Quaker City Uniform Co.*, *supra*; *In re Empire Granite Co.*, 42 F.

possession of the property free and clear of the lien. In such an instance the United States would have status of only a priority unsecured creditor. See *Brust v. Sturr*, *supra*. Indeed, as already pointed out, this was the status of the United States here as to part of its tax claim, and as to that part no post-bankruptcy interest was claimed.

Supp. 450, 453 (M.D. Ga.); 6 Remington on Bankruptcy (Fifth ed., 1952), Sec. 2780; 3 Collier on Bankruptcy (14th ed., 1956), Sec. 64.02.

Prior to the enactment of the Chandler Act in 1938, it was generally accepted that a tax claim, secured or unsecured, was entitled to interest to the date of payment out of the assets of the bankrupt estate, if such assets were of sufficient value. This principle was based primarily on the reasoning stated in *In re Kallak*, 147 Fed. 276 (N. Dak.), which interpreted the Bankruptcy Act of 1898 to evidence a Congressional intent that the bankruptcy of a taxpayer should not remove the tax obligation from the general principle that a debtor should pay his legal obligation with interest to the date of payment. In this connection the court stated (p. 287):

Section 64a, providing for the payment of the taxes in full in case there are sufficient funds in the estate available for that purpose, and section 17, of Act July 1, 1898, c. 541, 30 Stat. 550 [U.S. Comp. St. 1901, p. 3428] which provides that the discharge of the bankrupt shall in no way affect public taxes, clearly show that it was the intent of Congress that the public revenues of the state should be in no way prejudiced by the administration of the bankruptcy act.

At the time the Chandler Act was considered by Congress there were in reality four rather than three situations in which post-petition interest was payable. Two situations involved the preservation of a secured creditor's rights to interest; the third situation is the rare one where the estate is solvent. The fourth situa-

tion involved the preservation of tax claims so that public revenues would not be prejudiced by the insolvency of the taxpayer. Clearly then, there was no Congressional intent to preserve the estate of the bankrupt for the benefit of unsecured non-priority creditors to the detriment of the tax claim, including all statutory accruals thereto. The break in this generally accepted principle was construed by the Supreme Court in *New York v. Saper, supra*, to have been provided by Congress by the Chandler Act which (1) added subsection n to Section 57 of the Bankruptcy Act to provide that all claims of the United States and of any state or any subdivision thereof shall be proved and filed in the same manner as all other claims proved under the Act and which (2) made changes in Section 64 of the Bankruptcy Act with respect to the priority for payment of tax claims. The Supreme Court in *Saper* concluded that as a result of these changes tax claims against the bankrupt estate were now intended by Congress to be considered the same as other claims, and that this included the removal of the tax claim against the bankrupt estate from the general rule that a debtor pay his obligation with interest to the date of payment.

Agreeing that Congress by the Chandler Act removed the immunity of a tax claim from the operation of the bankruptcy rule against the payment of post-petition interest, it must then be determined whether it was the intent of Congress to place all taxes whether or not liened on a parity, or whether there was an intent to continue in effect the well-established distinction between a priority tax claim and a tax lien in a bankruptcy proceeding. We submit that an examination

of the Bankruptcy Act discloses that Congress was very much aware of the fact that a tax claim is unsecured in some instances and secured by a valid lien in others. This fact is evidenced by the changes made by the Chandler Act to Section 67 of the Bankruptcy Act.

By the Chandler Act Congress added paragraphs b and c to Section 67. (Appendix, *infra*.) Paragraph b preserves the validity of statutory liens, including those for taxes and debts owing to the United States or to any state or subdivision thereof, and provides for their perfection where such liens have not been perfected before bankruptcy, notwithstanding Section 60 of the Bankruptcy Act (11 U.S.C. 1952 ed., Sec. 96). By paragraph c of Section 67 the payment of statutory liens valid under paragraph b on personal property not accompanied by possession was postponed to the debts specified in Section 64a(1) and (2) of the Bankruptcy Act. (Appendix, *infra*.) It should be noted that in placing this restriction on the payment of certain tax liens Congress did not express any intent that the tax lien itself should be disregarded and the taxes paid as a priority claim. If such had been its intention we believe that Congress would not have included statutory liens on personal property not accompanied by possession among those whose validity was to be preserved, and Congress would not have used the word "postponed" with respect to their payment.

By Section 21(d) of the Act of July 7, 1952, c. 579, 66 Stat. 420, Congress further amended paragraph c of Section 67 providing in subparagraph c(2) for the removal of the lien status from, *inter alia*, statutory liens for debts of states or any subdivision thereof on personal property not reduced to possession. Again,

with respect to this 1952 amendment, if it had been the Congressional intention we submit that a statement, would have been included to show that the tax lien was only to be allowed as a priority claim, and Congress would not have retained the provision in subparagraph c(1) that the tax lien is valid against the trustee in the case of personal property not accompanied by possession while in subparagraph c(2) removing this lien status only with respect to statutory liens for debts of states or their subdivisions. As a matter of fact H. Rep. No. 2320, 82d Cong., 2d Sess., p. 13 (2 U.S.C. Cong. & Adm. News (1952) 1960, 1973), which accompanied the Act of July 7, 1952, c. 579, 66 Stat. 420, Section 21(d), commented with respect to the amendments to Section 67c which deprived certain state statutory liens (but not federal) of their validity against the trustee, as follows:

The Chandler Act introduced section 67c as a new subdivision. In limiting statutory liens on personal property not accompanied by possession of such property, it met the situation presented by a growing tendency to express priorities in terms of liens and thus to defeat the scheme of priorities prescribed in section 64a of the Bankruptcy Act.

This language clearly shows a recognition by Congress of the distinction between priorities as governed by Section 64 (Appendix, *infra*) and the federal tax lien as governed by Section 67 and further shows an intention to preserve with certain specified exceptions the tax lien from the priorities provided in Section 64 for unsecured claims. See *In re Pennsylvania Central Brewing Co.*, 114 F. 2d 1010 (C.A. 3d), where the court

commented on the effect of these changes made by the Chandler Act as follows (p. 1012) :

The appellees refer to Section 64, sub. a (4) of the Act, 11 U.S.C.A. §104, sub. a (4), and contend that the provisions of this section operate to prohibit payment of the appellants' tax lien. This is not the case. The prohibition expressed in the section referred to applies where claims for taxes are made against the general assets of the estate, that is to say, assets not subject to liens or encumbrances.

Thus, it is clear that when Congress by amendments to Sections 57 and 64 waived the generally recognized immunity of the United States from the operation of the rule of bankruptcy regarding the payment of post-petition interest on unsecured claims, it did not intend to waive this immunity with respect to a tax obligation secured by a tax lien. The contention that it did apparently relies for support on *Saper*. However, as we have shown, *supra*, *Saper* involved non-liened claims and was decided on the basis of Congressional intent as expressed in the changes made by the addition of subsection n to Section 57 and by the provisions added to Section 64. Neither of these two sections relate to secured claims, statutory or otherwise.

If it is concluded that Sections 57 and 64 are applicable to secured tax lien claims then it would appear necessary to disregard the express language to the contrary contained in subsections b and c of Section 67 and, in the interest of consistency, assert that a tax lien must be proved in the same manner as an unsecured claim and that a tax lien has for all purposes only the

status of a priority claim under Section 64a(4). Such a construction is contrary to generally accepted bankruptcy principles that the requirements of filing and proving do not apply to secured creditors including tax lienors (*Brans v. City of Dallas, supra*), that the provisions of Section 64a(4) apply only to unsecured tax claims (*In re Pennsylvania Central Brewing Co., supra*), as well as to the fact that tax liens rank in priority with other secured liens (*United States v. New Britain, supra*). Moreover, any obliteration of the distinction between a tax lien and a priority claim is contrary to the comments made by the Supreme Court when it considered the more limited legislative intent of Congress in adding Section 67c to the Bankruptcy Act. In *Goggin v. California Labor Division*, 336 U.S. 118, 126-127, the Court made the following comments regarding Section 67c:

While § 67c was added to the Bankruptcy Act by the Chandler Act in 1938, we find nothing in it or in its legislative history to suggest an abandonment of the underlying point of view as to the time as of which it speaks and the general purpose of Congress to continue to safeguard interests under liens perfected before bankruptcy. *City of Richmond v. Bird*, 249 U.S. 174; *In re Knox-Powell-Stockton Co.*, 100 F. 2d 979; *In re Van Winkle*, 49 F. Supp. 711. While § 64, as amended, somewhat readjusts priorities among unsecured claims, § 67 continues to recognize the validity of liens perfected before bankruptcy as against unsecured claims. * * * The background of § 67c suggests a conscious purpose to give a narrowly limited

priority to administrative expenses and to certain wage claims, at least in instances disclosing accumulations of unpaid taxes the priority of which wage earners had no good reason to suspect, and which might absorb the entire estate of the bankrupt unless postponed by these provisions.

In addition, in a footnote on page 129 the Court cites as support *Weinstein*, *The Bankruptcy Law of 1938* (1938), and quotes the following statement from it:

While subd. a of sec. 64 provides for priority of payment of such costs and expenses, such payment is prior only to the other unsecured debts and does not affect or impair valid liens, whether statutory or otherwise.

To the same effect see *DeLaney v. City and County of Denver*, *supra*, p. 250; *United States v. England*, 226 F. 2d 205 (C.A. 9th); *California State Dept. of Employ. v. United States*, 210 F. 2d 242 (C.A. 9th); *Rochelle v. City of Dallas* (C.A. 5th), decided February 25, 1959 (C.C.H. Bankruptcy Law Reporter, par. 59, 430); *Phoenix Indemnity Co. v. Earle*, 218 F. 2d 645, 650 (C.A. 9th). Thus, it is clear that the amendments enacted by the Chandler Act and by the Act of July 7, 1952, *supra*, do not evidence any intention by Congress to assimilate secured tax claims even where imposed on personal property not accompanied by possession to unsecured tax claims for the purpose of removing tax liens from the rules applicable to the payment of interest on a secured debt, and further that the Supreme Court in its opinion in *Saper* did not place such an interpretation on these amendments.

D. *Applicability of lien provisions of the Bankruptcy Act to tax liens*

This is the second case in a Court of Appeals in which the issue has been raised as to whether the United States is entitled to post-petition interest where it has valid and perfected tax liens in existence prior to the filing of the petition in bankruptcy. The first case is *United States v. Harrington* which is currently pending in the Fourth Circuit (No. 7812) on appeal by the United States and as to which oral argument is scheduled for June 11, 1959. There have been several District Court decisions in point. *In re Parchem* (Minn.), decided August 12, 1958 (58-2 U.S.T.C., par. 9836), allowed post-petition interest to the United States under these circumstances.⁹ Others have denied such interest. See *In re Industrial Machine & Supply Co.*, 112 F. Supp. 261 (W.D. Pa.); *In re Lykens Hosiery Mills*, 141 F. Supp. 895 (S.D. N.Y.); *In re Mighell*, 168 F. Supp. 811 (Kans.), currently on appeal by the United States to the Tenth Circuit.

The District Court below denied post-petition interest to the United States on its liened tax claims for the following reasons: (1) The Chandler Act amendments to Section 57 and 64a of the Bankruptcy Act, *supra*, relegated the tax liens of the United States to the status of unsecured priority claims. (R. 21-26.). (2) There is a difference between consensual and statutory liens, in that the former attach to specific property, whereas the tax liens of the United States are not a charge upon a

⁹ See *Marcalus Manufacturing Co. v. United States*, 169 F. Supp. 821 (C. Cls.), where the United States was held entitled to post-petition interest on a tax claim where the debtor proved to be solvent.

specific property, but are specific only for the purpose of determining priorities. (R. 26-27.) (3) for consensual liens the debtor authorizes the payment of any deficiency which might arise after the sale of the security, but he does not authorize such payment in the case of statutory liens. (R. 28-29.) (4) For consensual liens the debtor cannot question the validity or amount of the debt, whereas he can for tax liens which are only assertions of liability. (R. 29-31.) (5) Post-petition interest should not be allowed since it is in the nature of a penalty. (R. 32-33, 39-40.) (6) The aim of the Bankruptcy Act is to achieve equity of distribution among all creditors, and if the United States were to receive post-petition interest it would react to the detriment of other creditors. (R. 34-36, 41.) We submit that none of the above reasons are sufficient and valid.

1. Since we have discussed in detail in Part C of our brief, *supra*, our answer to the first ground for disallowing post-petition interest, i.e., that the Chandler Act amendments did not relegate the status of a tax lien to that of an unsecured priority claim, we shall not burden the Court with any further discussion of this point here, except to reiterate that in none of the cases relied upon by the District Court below, as *New York v. Saper, supra*, *United States v. General Engineering & Mfg. Co., supra*, and *National Foundry Co. of N.Y. v. Director, supra*, did the United States have any valid lien upon which it based its right to post-petition interest, and in those cases the courts did not discuss the status of a liened tax claim. Further, as we have pointed out, *supra*, other decisions have drawn a sharp distinction between the status of a tax lien and

an unliened priority tax claim, with the former being considered as a secured claim and not as a mere priority claim. See *United State v. England, supra*, *California State Dept. of Employ. v. United State, supra*; *Phoenix Indemnity Co. v. Earle, supra*. Cf. *United States v. City of Greenville, supra*.¹⁰

2. We submit that there is no basis for distinguishing between a tax lien and other liens, such as a mortgage lien, for purposes of payment of post-petition interest upon any of the grounds relied upon by the District Court below. For example, there is not any merit in the contention that tax liens are to be distinguished from contractual liens and discriminated against with respect to the payment of interest on the ground that the former are general and attach to all property of the taxpayer, whereas the latter are specific and become an encumbrance only on certain property. Indeed, much present day financing, as well as many of the security devices utilized today, are not of this kind. Many financing transactions contemplate that the collateral will include both the debtor's existing assets and

¹⁰ Similarly in *United States v. Edens, supra*, cited by the District court below (R. 37), the United States was not asserting its right to post-petition interest based upon any lien.

The District Court also appears to rely (R. 21-22, 36-37) upon statements in 3 Collier on Bankruptcy (14th ed., 1956), Sec. 63.26, and 2 Remington on Bankruptcy (Rev. ed., 1956), Secs. 800-805. However, an analysis of these statements in Collier and Remington reveals that these authorities were commenting upon changes made in the status of an unsecured tax claim by the Chandler Act and not upon the status of a secured tax claim. This is shown by the fact that both writers in other sections of their treatises refer to the necessity of distinguishing between a tax lien and a tax priority. See 3 Collier on Bankruptcy (14th ed., 1956), Sec. 64.403; 2 Remington on Bankruptcy (Rev. ed., 1956), Secs. 905, 908; and 4 Collier on Bankruptcy (14th ed., 1942), Sec. 67.24, which is quoted, in part, *infra*.

assets thereafter acquired by him in the operation of his business, such as accounts receivable, crops, intangibles, etc. Thus, the properties subject to the lien may change, the security may consist of after-acquired property, and the specific property to which the lien may attach at the time of default may not even have been in existence at the time the lien came into existence. Nevertheless, such after-acquired security interests are generally valid.¹¹ See Uniform Commercial Code (1958), Article 9; Coogan, Priorities Among Secured Creditors and the "Floating Lien", 72 Harv. L. Rev. 838 (1959). See also California Civil Code, Sections 2883, 2884, 2930, 3017, 3018 (11 West's Annotated California Codes (1954), Secs. 2883, 2884, 2930, 3017, 3018).

Also, as we have pointed out, *supra*, the Government's tax lien repeatedly has been held by the Supreme Court and other courts to be both general and specific (see *United States v. New Britain*, *supra*; *Glass City Bank v. United States*, 326 U.S. 265), and there is no provision in the Bankruptcy Act which limits the specificity of the tax lien only to the question of priority and excludes its applicability to the question of payment of interest. If the lien is valid under Section 67 of the Bankruptcy Act for purposes of payment of principal as against competing secured claimants it surely is as valid for purposes of payment of interest. If the lien is not paid according to its terms, i.e., with interest to the date of payment, this would constitute a partial invalidation of the lien, for which there does

¹¹ However, any private encumbrance which arises within the time set forth in the Bankruptcy Act, may be struck down as a preference.

not appear to be any authority contained in the Bankruptcy Act.

As we have pointed out in Part C of our brief, *supra*, Section 67c provides only that the statutory lien for taxes on personal property not accompanied by possession is postponable to the payment of the debts specified in Section 64a(1) and (2). Yet there is nothing in the language of Section 67c to indicate that the specificity of the federal tax lien may be impaired with respect to its attachment to personal or real property of the debtor in the custody of the bankruptcy court. On the contrary, as we have shown in Part C of our brief, *supra*, Section 67c(1) merely shows a Congressional intent to postpone to a limited extent the priority of payment of the statutory lien. The only invalidating provision of Section 67c is contained in subsection (2) and is limited to certain statutory liens on personal property arising under state law.¹²

3. We submit that there is not any valid distinction between a contractual lien and a tax lien based upon the premise that for a contractual lien the debtor not only authorizes the satisfaction of the debt from the

¹² Indeed, *United States v. City of Greenville*, 118 F. 2d 963, 964, 965 (C.A. 4th), and *United States v. Reese*, 131 F. 2d 466 (C.A. 7th), which the court below cites (R. 27, 37-38), support the contention of the United States. Like mortgage liens the federal tax lien is not "to be deprived of validity because it attaches to a number of pieces of property instead of to a single piece, nor is it for that reason to be subordinated to a junior lien attaching to a single piece of property." Again "The Federal statutes create specific liens for taxes and as a corollary give a specific remedy for their removal and when such liens once attach, they may be lifted only as provided thereunder." The inference is that the tax lien, thus subsisting, extends to interest realizable out of the security as well as to principal. See *United States v. Bank of America* (C.A. 9th), decided February 2, 1959 (59-1 U.S.T.C., par. 9249), rehearing denied, May 1, 1959.

security but also agrees to the payment of any deficiency which might arise in the event the security is inadequate, whereas a taxpayer does not consent to the collection of any tax deficiency. It should also be noted that the tax lien, just as a mortgage, comes into existence bilaterally.¹³ Anyhow, the validity of this distinction is questionable by reason of the California Code of Civil Procedure, Sections 580b and 580c (16 West's Annotated California Codes (1955), Secs. 580b, 580c), which limits a mortgagee, trustee or holder of notes secured by a purchase money mortgage to the value of the security and precludes a deficiency judgment.¹⁴

Further, the assumption that a distinction exists between a tax lien and a mortgage lien even for the limited purpose of disallowing post-proceeding interest is to disregard the Congressional mandate vesting the United States with a lien upon the property of a delinquent taxpayer, providing for the payment of interest

¹³ A taxpayer's mode of conduct under the laws, i.e., his failure to pay the full amount of his tax liability before assessment, demand and notice, renders him liable for any unpaid amounts after the value of the security has been exhausted.

¹⁴ In this connection it should be noted that many statutes, including California, regulate by statute the creation and payment of liens covering a wide variety of matters, such as mechanics', laborers' and materialmen's liens, subcontractors' liens, assignments of accounts receivable, etc., including those on future interests. See California Civil Code, Sections 2883, 2884, 2930, 3017, 3018 (11 West's Annotated California Codes (1954), Secs. 2883, 2884, 2930, 3017, 3018).

Although some sections of the California Civil Code and California Code of Civil Procedure, such as Sections 580a and 726 of the latter (17 West's Annotated California Codes (1955), Secs. 580a, 726) permit some mortgagees to obtain a deficiency judgment on certain mortgages, as cited by the District Court below (R. 38, fn. 28), nevertheless these provisions are circumscribed by Sections 580b and 580c, as shown above.

upon the debt secured by the lien to the date of payment and limiting the manner in which the lien may be released or property discharged therefrom. See Section 6321 of the 1954 Code (Appendix, *infra*), Section 6601(a) of the 1954 code, *supra*, and Section 6325 of the 1954 Code (26 U.S.C. 1952 ed., Supp. II, Sec. 6325). Cf. *United States v. Bank of America* (C.A. 9th), decided February 2, 1959 (59-1 U.S.T.C., par. 9249), rehearing denied May 1, 1959. As we have shown in Part C of our brief, *supra*, there is no basis either in the Bankruptcy Act or in the Internal Revenue Code of 1954 to impute to Congress any intention to reduce a tax lien to the status of a prior unsecured claim. As recently as 1958, the House Committee on the Judiciary in H. Rep. No. 2535, 85th Cong., 2d Sess., p. 3, reported favorably on a bill to amend Sections 2a, 17a(1) and 64a(4) of the Bankruptcy Act, among other things, to effect the dischargeability of taxes in bankruptcy. The Committee Report expressed views which support the position of the United States in this context, as follows:

While, under the bill, unsecured tax claims due and owing more than 3 years prior to bankruptcy would be dischargeable, there is no intention to place any time limit on otherwise valid tax liens. As with other secured claims like mortgages and conditional sales contracts, the purpose of the lien is to give the creditor a property interest which is indefeasible in bankruptcy. * * * The committee amendment discussed above, emphasizes this legislative intent.

While this bill (H. R. 12802) was not passed, the report of the Committee is entitled to weight. See *New York v. Saper*, *supra*, pp. 338-340.

4. Nor is there any basis for distinguishing between a contractual lien and a tax lien on the ground that for the contractual lien the genuineness of the instrument and the amount of the debt which it was given to secure is settled by the instrument itself, whereas in the case of a tax lien the validity and amount of the obligation may be in dispute. Before a tax lien arises under which the United States seeks to obtain post-petition interest it is necessary for the tax obligation to have been assessed before the commencement of the bankruptcy proceeding. This is so regardless of the nature of the tax involved. In the case of a tax lien supported by assessments of withholding and F.I.C.A. taxes which are involved in this case (R. 3, 9-10, 12, 16-17, 19), the assessments are based on liability disclosed by the debtor in a filed return or are based upon an examination of the bankrupt's records. Therefore, it is submitted that the frequency of litigation regarding the amount of tax liability secured by the lien is not substantially greater than, if in fact as great as, the litigation over the amounts owing under contractual liens. The reports disclose many decisions in the field of contracts, mortgages, mechanics' liens, etc., which involve the validity and amount of contractual liens. In fact, as the referee found (R. 8) there was no question here of the correctness of the amount of the assessed liabilities. Indeed, the District Court's argument on this facet of the case overreaches itself for it would lead to the conclusion that tax liens ought not to be treated as secured liens at all, even as to the principal amount due.¹⁵

¹⁵ Besides, the District Court's statements (R. 29-30), that a tax lien is merely an assertion by the United States that so much

In summation therefore, for the foregoing reasons, it is submitted that there is no valid distinction between a tax lien and a consensual lien which would justify

tax remains unpaid and that the filing of the lien does not determine the amount due, for otherwise it would place a taxpayer at the mercy of a revenue agent who capriciously levied an assessment, minimizes certain safeguards inherent in the tax assessment procedures. For example, assessments of income, estate or gift taxes are based either upon the amount disclosed to be due and owing by the debtor on his income tax return or upon a finding by officials of the Internal Revenue Service that the actual liability of the debtor exceeds the amount shown on his return, i.e., that a deficiency exists. In the second instance an assessment of the deficiency cannot be made in the absence of an agreement by the taxpayer until ninety days after the taxpayer has been notified in writing as to the amount of and reasons for the deficiency, and he then has a right within the ninety day period to file a petition with the Tax Court for a re-determination of the deficiency. See Sections 6212 and 6213 of the 1954 Code (26 U.S.C. 1952 ed., Supp. II, Secs. 6212 and 6213). After the decision of the Tax Court becomes final an assessment can be made. In such an instance the correctness of the assessment which supports the tax lien has been judicially established. See Section 6215 of the 1954 Code (26 U.S.C. 1952 ed., Supp. II, Sec. 6215). With the exception of jeopardy assessments made pursuant to Section 6861 of the 1954 Code (26 U.S.C. 1952 ed., Supp. II, Sec. 6861) the only claims filed in a bankruptcy proceeding for unpaid income, estate or gift taxes which are not based upon a liability disclosed by the taxpayer to be due and owing, or upon an assessment for which the taxpayer had ample opportunity for a re-determination by the Tax Court, are assessments certified after the commencement of the bankruptcy proceeding pursuant to Section 6871 of the 1954 Code (26 U.S.C. 1952 ed., Supp. II, Sec. 6871), and there the Government does not claim lien status. Therefore, with the possible exception of a jeopardy assessment, which is not here involved, when a tax lien claim is presented for income, estate or gift taxes, the taxpayer has had ample opportunity for judicial review to determine the correct amount owing, and the tax lien reflects more than a mere assertion of liability.

Further, as already set forth, in the case of taxes not subject to Tax Court jurisdiction there is often, as here, actually no controversy with respect to the amount of the assessment. But should there be controversy ample opportunity for judicial review is provided.

the disallowance of post-petition interest to the former and not to the latter. But even if there were a difference, we submit that it is immaterial on the issue as to whether the tax lien is entitled to obtain post-petition interest. As we have previously shown in Part C of our brief, prior to the Chandler Act the bankruptcy courts generally allowed post-petition interest on tax claims, both secured and unsecured, upon the ground that the intention of Congress required such payment. The Supreme Court in *Saper* held that this generally accepted rule was no longer applicable to unsecured tax claims in view of the Chandler Act amendments to Sections 57 and 64 of the Bankruptcy Act dealing with unsecured, including unsecured priority, claims. As we have shown, *supra*, the Supreme Court in *Saper* was not concerned with the interpretation of subsection b or c of Section 67. When in *Goggin v. California Labor Div.*, *supra*, it was concerned with these subsections, the Supreme Court interpreted the intent of Congress (pp. 126-127) "to continue to safeguard interest under liens perfected before bankruptcy." We submit that one such interest to be safeguarded is the right to post-petition interest on a tax lien. Thus, in 4 Collier on Bankruptcy (14th ed., 1942), Section 67.24, p. 239, the following statement is made:

Statutory liens for taxes and debts owing to the United States or any state or subdivision thereof "may be valid" as against the trustee by virtue of § 67b * * *. This provision probably represents little change in the law, since such liens were upheld under the Act of 1898, either because of

former § 67d or because such liens were not expressly invalidated.

Accordingly, as we have shown in Part C of our brief, *supra*, in order to arrive at a correct interpretation of the Congressional intent it is necessary to consider the amendments to Sections 57 and 64 in the light of subsections b and c of Section 67, and that when all these sections are read together they clearly show that Congress never intended to diminish the right of the United States to obtain payment in full on its tax lien, including post-petition interest, regardless of whether such tax lien is similar in all respects to a consensual lien.

5. We submit that there is no merit to the District Court's contention that to permit the imposition of post-petition interest is to impose a penalty, and that the latter is not allowable in bankruptcy. In the first place both the Internal Revenue Code of 1954 and the Bankruptcy Act distinguish between interest and penalties. The only pertinent provision in the Bankruptcy Act which disallows certain statutory penalties, Section 57j (11 U.S.C. 1952 ed., Sec. 93), does not apply to interest. In this connection it should be noted that one of the cases upon which the court below has relied (R. 32-33, 39) to support its disallowance of post-petition interest on the ground that such interest is in the nature of a penalty (*In re Burch*, 89 F. Supp. 249 (Kans.)) distinguishes between penalty and interest. In that case the District Court disallowed the penalty but allowed post-petition interest. See also *In re Parcham*, *supra*.¹⁶ Even assuming that interest could

¹⁶ The District Court also relies (R. 39-40) upon *In Re Union Fabrics*, 73 F. Supp. 685 (S.D. N.Y.), in which that court dis-

be likened to a penalty, to which we do not agree, it also appears that the court below has completely disregarded the decision of this Court in *In re Knox-Powell-Stockton Co.*, 100 F. 2d 979, in which this Court held that penalties were allowable if secured by a valid lien existing at the time of bankruptcy. See also *Commonwealth of Kentucky v. Farmers Bank & Trust Co.*, 139 F. 2d 226 (C.A. 6th); *Grimland v. United States*, 206 F. 2d 599 (C.A. 10th). As we shall discuss in greater detail, *infra*, this reason for disallowance of post-petition interest appears to rest upon supposed equitable grounds. It would appear that whatever equity would support the disallowance of post-petition interest would be at least, if not more, applicable to the disallowance of penalties. Nevertheless, as this Court appears to have recognized in *In re Knox-Powell-Stockton, supra*, the dignity of a valid tax lien requires the payment of tax penalties accrued by the lien regardless of any alleged equitable considerations.¹⁷

allowed post-petition interest because the allowance thereof would (p. 688) "require the general creditors to pay the penalty caused by the delay necessitated to preserve and protect the estate." We submit that this case is not applicable here. In the first place the tax claims in that case were unsecured. Secondly, neither the decision of the Second Circuit in *Carter v. United States*, 168 F. 2d 272, nor the decision of the Supreme Court in *New York v. Saper*, 336 U.S. 328, which affirmed the decision of the District Court in *In re Union Fabrics*, nor the companion decision by the Second Circuit in *Saper v. New York*, 168 F. 2d 268, 271, held that post-petition interest should be treated as an unsecured penalty. Thus, this ground in *In re Union Fabrics* appears to be without force.

¹⁷ Although in *In re Knox-Powell-Stockton, supra*, this Court was considering the effect of a statutory lien for delinquency penalties as recognized and preserved by Section 67d of the Bankruptcy Act prior to the enactment of the Chandler Act, the latter act did not purport to amend either Sections 60 or 67 of the Bankruptcy Act so as to invalidate statutory liens securing tax penalties. See *Goggin v. California Labor Div., supra*, pp. 126-127.

6. The last ground relied upon by the District Court to disallow post-petition interest is that it would not be equitable to unsecured creditors to allow the tax liens to be swollen by the inclusion of post-petition interest. This contention appears to be based upon what are conceived to be the equities appropriate for the benefit of the unsecured creditors in the distribution of the bankrupt estate.¹⁸ But this is a matter of policy to be resolved by Congress, and not by the courts. Surely it is clear that Congress does not intend all creditors to be treated equally. Secured creditors have always received priority at the expense of unsecured creditors.

The District Court relies upon the following cases, among others, to support its decision (R. 34-36, 40-41; fns. 36, 38, 41) : *Sampsell v. Imperial Paper Corp.*, 313 U.S. 215; *Ticonic Bank v. Sprague*, 303 U.S. 406; *Vanstons Committee v. Green*, 329 U.S. 156; and *Gardner v. New Jersey*, 329 U.S. 565. We submit that none of these decisions support the decision below. *Sampsell v. Imperial Paper Corp.*, *supra*, is not applicable here since it involves the question as to whether an unsecured creditor is entitled to a priority of distribution of his claim and does not involve either a secured creditor or post-petition interest. *Ticonic Bank v. Sprague*, *supra*, involves a liquidation of a national bank not under the Bankruptcy Act. Although in that case the Supreme Court did state that (p. 411) "It is in order to assure equality among creditors as of the date of insolvency that interest accruing thereafter

¹⁸ In *New York v. Saper*, *supra*, the Supreme Court based its determination upon its interpretation of the effects of the amendments made by the Chandler Act and not upon any alleged equitable grounds.

is not considered.”, nevertheless the Supreme Court’s opinion in that case appears to support the position of the United States in the present case and recognizes the distinction between unsecured and secured creditors (both consensual and statutory) with respect to the payment of interest as follows (pp. 411-413) :

The rule of *White v. Knor*, *supra*, does not require that interest be denied to the secured creditors unless the principle of equality of distribution is to be applied as between all creditors. Secured creditors have two sources of payment for their claims—the liability of the debtor and the liability of the pledged or mortgaged assets. One is personal, the other in rem. The liability in personam of the bank gives rise to a claim in rem against the free assets in the hands of the receiver; the claim in rem against the security continues as a claim in rem against that same security. With respect to the former the secured creditors have merely the same rights as any general creditor, and in so far as dividends are paid to secured creditors from free assets, they share ratably with the unsecured creditors, and their claims bear interest to the same date, that of insolvency. Compare *Merrill v. National Bank of Jacksonville*, 173 U.S. at 146; *Aldrich v. Chemical National Bank*, 176 U.S. 618, 638. But to the extent that one debt is secured and another is not there is manifestly an inequality of rights between the secured and unsecured creditors, which cannot be affected by the principle of equality of distribution (*American Iron & Steel Mfg. Co. v. Seaboard Air Line Ry.*, *supra*, at 266; *Chemical National Bank v. Armstrong*, *supra*, at

376-377), and interest accruing after insolvency may not be withheld on account of that principle.

The rule as to the date to which interest is to be allowed on secured claims sharing pro rata with unsecured claims, cannot apply to the disposition of pledged or mortgaged assets subject to the lien of individual creditors, unless we are to disregard the rights in these assets prior to insolvency. But "liens, equities or rights arising . . . prior to insolvency and not in contemplation thereof, are not invalidated." *Scott v. Armstrong*, 146 U.S. 499, 510; *Merrill v. National Bank of Jacksonville*, 173 U.S. 131, 145. By contract or, as in this case, by statute, the secured creditors gain or are given a lien on or right in property "in addition to their claim against the estate of the bank." Section 11 (k) of the Federal Reserve Act as amended. *The statutory lien* prior to receivership withdrew the pledged security from the assets of the bank available to general creditors, in so far as might be necessary to satisfy the lien. Though title to the collateral was in the name of the bank, it was subject to this lien, and to that extent the property pledged could not properly be said to belong to the bank for purposes of distribution to creditors. *Scott v. Armstrong, supra* at 510.

As the obligation to pay interest is not destroyed by the insolvency and as the rights of the secured creditor in his collateral, contractual or statutory, are likewise unaffected, we are of the opinion that a secured creditor of a national bank in receivership may enforce his lien against his security, where it is sufficient to cover both principal and interest,

until his claim for both is satisfied. [Emphasis supplied.]

Although *Vanston Committee* often has been cited for the proposition denying post-petition interest upon equitable considerations we submit that this is not an accurate application of the *Vanston* opinion. In *Vanston* the Supreme Court denied the recovery by a mortgagee of interest upon interest for the period following the commencement of bankruptcy. But, in *Vanston* the Supreme Court recognized (pp. 164-165) the exception involved here, i.e., the payment of post-petition interest to a secured creditor, and the payment of simple interest on the mortgage was allowed without contest (p. 159). Further, as we shall discuss, *infra*, there has not been any showing that the United States has caused such a delay in the bankruptcy administration so as to render the payment to it of post-petition interest an inequity with respect to other creditors. See also *Palo Alto Mutual Savings and Loan Ass'n. v. Williams*, 245 F. 2d 77, where this Court sitting *en banc* held that (p. 79) a study of the text of the *Vanston* opinion makes it clear that it did not overrule the principle that a secured creditor cannot be deprived of his interest in full to the date of the sale where the value of the security exceeds the debt and the interest thereon.¹⁹

¹⁹ It does not appear that the Supreme Court considered its *Vanston* opinion to require the denial of post-petition interest to a secured creditor, as is shown by its opinion in *Gardner v. New Jersey*, *supra*, which was decided approximately six weeks after *Vanston*. In the course of its opinion in *Gardner* the Supreme Court cited examples of questions of which the reorganization court might have jurisdiction, but decided none of them. One example listed was (p. 581) “ * * * what interest, if any, accrues after the petition for reorganization has been filed, *Vanston Committee v. Green*,

In the present case the United States contends only that its security be treated no less favorably than other secured claims in bankruptcy. As already suggested, the rule stopping payment of interest on claims in bankruptcy is based on considerations of expediency and practical convenience, not present in the case of secured claims, including secured tax claims. No delay until final distribution is requisite in the case of a secured claim; it cannot be said in such cases that the delay is the law's and, therefore, interest should not be required. If the security is adequate to pay post-petition interest as well as principal, it can at once be utilized and no more or different time is necessary for that purpose after the petition is filed than before. Again, since the value of the security subject to the lien is not shared by other creditors, no recurring interest adjustments on claims, which might complicate administration, are involved.

In the case of insolvency both Congress and the courts have always favored the United States in collection of the public revenues which, by statutory mandate, includes interest to the date of payment. The obligation of a bankrupt's estate to pay taxes is of course distressing to an unsecured creditor who leaves the bankruptcy with empty hands, but Congress, who is aware of the plight of the unsecured creditor and the hardships worked on him by affording secured creditors, including the United States, prior payment, has since the earliest history of the United States always sought to protect the public revenue as well as to protect secured creditors.

329 U.S. 156, are all questions for the reorganization court." Further support comes from the fact that in its later decision in *New York v. Saper*, the Supreme Court made no reference to *Vanston*.

One of the first acts of Congress under the then new Constitution, the Act of July 31, 1789, c. 5, 1 Stat. 29, Sec. 21, was passed in order to secure payment of the external duties by giving such revenue priority over the claims of other creditors of an insolvent. Congress has never seen fit since the beginning of the insolvency laws of the United States to reduce the tax obligation in the case of insolvency to equality with general unsecured claims. When it felt that a situation justified such action, the absolute right to payment in full of the tax obligation was modified, but never to the extent of protecting any but certain specified groups of creditors under very limited conditions, such as the priority given to administration cost and wage claims. In the present situation Congress has by statute included interest in the tax lien supported by the tax assessment and has provided that the tax lien shall be valid in bankruptcy proceeding. To now advance the argument that one portion of the lien (interest) is to be disallowed on the basis that it is not fair to unsecured creditors, and that Congress never intended to deplete the assets available for such other creditors, is to fly in the face of the basic intention of Congress evidenced by the history of legislation both in the insolvency and bankruptcy areas, to assure the revenues of the United States. It is also to discriminate against the security of the lien of the United States in favor of other secured creditors without any statutory warrant.

Whenever Congress has felt it was unjust to grant the tax obligation or any part of the tax obligation priority over general creditors it has amended the law to reflect that intention. But where Congress has ex-

pressly provided for the validity of the tax lien without any restriction as to any portion of the lien, we submit that it intended the entire lien, including interest, to subsist regardless of any alleged hardships worked on lower ranking creditors.²⁰ As already pointed out where Congress has intended any security to be subordinated in bankruptcy to any other claim that intention has been expressed specifically.

It is also asserted that a creditor whose security has originated in a contract will have extended something of value to his debtor and, accordingly, has more equity than the taxing agency which has made no addition in the estate of the debtor. When the latter seeks to recover interest on its tax claim, it is urged that the tax authority endeavors to obtain a return without having extended an economic benefit or taken an economic risk. But this argument applies equally to the principal of the tax claim and thus goes too far. In the last analysis the question is one of policy, and Congress has settled it by supporting the tax lien. After all, the protection and services which the United States affords surely were important in the creation of the bankrupt's estate. Congress having afforded the security recognition, there is no reason to suppose that it intended to deny it any of the incidents of a secured claim. Moreover, under the facts of the present case, this contention is totally without relevance. Here the taxes involved, such as withholding of employees' income and F.I.C.A. taxes, were in effect trust funds for the United States which the debtor collected from his employees and

²⁰ In any event there are no equitable rights to priorities of payment among unsecured creditors. These are based solely upon statute. 6 Remington on Bankruptcy (sixth ed.), Section 2778.

should have paid to the United States.²¹ Instead, he used them in defraying his operating expense. Thus, it is readily apparent that the bankrupt estate may well have been increased by the amount of these taxes, and the bankrupt obtained an economic benefit from their receipt; surely he obtained an advantage over his competitors. There is a valid basis for the supposition that such funds, which normally should have been paid to the United States as taxes, were, in fact, paid to unsecured creditors.

CONCLUSION

The order of the District Court should be reversed and the secured claims of the United States in the amount of \$2,453.64 for interest should be allowed in full.

Respectfully submitted,

CHARLES K. RICE,
Assistant Attorney General.

LEE A. JACKSON,
I. HENRY KUTZ,
KARL SCHMEIDLER,
Attorneys,
Department of Justice,
Washington 25, D. C.

LAUGHLIN E. WATERS,
United States Attorney.

EDWARD R. McHALE,
ROBERT H. WYSHAK,
Assistant United States Attorneys.

MAY, 1959.

²¹ It is also noted that with respect to the above taxes the United States is required to pay back to employees any overpayment of their income tax liability even though the taxpayer failed to pay to the United States the collected amounts.

APPENDIX

Internal Revenue Code of 1954:

SEC. 6321. LIEN FOR TAXES.

If any person liable to pay any tax neglects or refuses to pay the same after demand, the amount (including any interest, additional amount, addition to tax, or assessable penalty, together with any cost that may accrue in addition thereto) shall be a lien in favor of the United States upon all property and rights to property, whether real or personal, belonging to such person.

(26 U.S.C. 1952 ed., Supp. II, Sec. 6321.)

SEC. 6322. PERIOD OF LIEN.

Unless another date is specifically fixed by law, the lien imposed by section 6321 shall arise at the time the assessment is made and shall continue until the liability for the amount so assessed is satisfied or becomes unenforceable by reason of lapse of time.

(26 U.S.C. 1952 ed., Supp. II, Sec. 6322.)

SEC. 6323. VALIDITY AGAINST MORTGAGEES, PLEDGEES, PURCHASERS, AND JUDGMENT CREDITORS.

(a) *Invalidity of Lien Without Notice.*—Except as otherwise provided in subsection (c), the lien imposed by section 6321 shall not be valid as against any mortgagee, pledgee, purchaser, or judgment creditor until notice thereof has been filed by the Secretary or his delegate—

(1) *Under state or territorial laws.*—In the office designated by the law of the State or Territory in which the property subject to the

lien is situated, whenever the State or Territory has by law designated an office within the State or Territory for the filing of such notice; or

(2) *With clerk of district court.*—In the office of the clerk of the United States district court for the judicial district in which the property subject to the lien is situated, whenever the State or Territory has not by law designated an office within the State or Territory for the filing of such notice; or

(3) *With clerk of district court for District of Columbia.*—In the office of the clerk of the United States District Court for the District of Columbia, if the property subject to the lien is situated in the District of Columbia.

(b) *Form of Notice.*—If the notice filed pursuant to subsection (a)(1) is in such form as would be valid if filed with the clerk of the United States district court pursuant to subsection (a)(2), such notice shall be valid notwithstanding any law of the State or Territory regarding the form or content of a notice of lien.

(c) *Exception in Case of Securities.*—

(1) *Exception.*—Even though notice of a lien provided in section 6321 has been filed in the manner prescribed in subsection (a) of this section, the lien shall not be valid with respect to a security, as defined in paragraph (2) of this subsection, as against any mortgagee, pledgee, or purchaser of such security, for an adequate and full consideration in money or money's worth, if at the time of such mortgage, pledge, or purchase such mortgagee, pledgee, or purchaser is without notice or knowledge of the existence of such lien.

(2) *Definition of security*.—As used in this subsection, the term “security” means any bond, debenture, note or certificate or other evidence of indebtedness, issued by any corporation (including one issued by a government or political subdivision thereof), with interest coupons or in registered form, share of stock, voting trust certificate, or any certificate of interest or participation in, certificate of deposit or receipt for, temporary or interim certificate for, or warrant or right to subscribe to or purchase, any of the foregoing; negotiable instrument; or money.

(d) *Disclosure of Amount of Outstanding Lien*.—If a notice of lien has been filed under subsection (a), the Secretary or his delegate is authorized to provide by rules or regulations the extent to which, and the conditions under which, information as to the amount of the outstanding obligation secured by the lien may be disclosed.

(26 U.S.C. 1952 ed., Supp. II, Sec. 6323.)

Bankruptcy Act, c. 541, 30 Stat. 544:

SEC. 64 [As amended by Sec. 1, Act of June 22, 1938, c. 575, 52 Stat. 840, and Sec. 19(a), Act of July 7, 1952, c. 579, 66 Stat. 420]. DEBTS WHICH HAVE PRIORITY.—a. The debts to have priority, in advance of the payment of dividends to creditors, and to be paid in full out of bankrupt estates, and the order of payment, shall be (1) the actual and necessary costs and expenses of preserving the estate subsequent to filing the petition; * * * (2) wages, not to exceed \$600 to each claimant, which have been earned within three months before the date of the commencement of the proceeding, * * * (3) where the confirmation of an

arrangement or wage-earner plan or the bankrupt's discharge has been refused, revoked, or set aside upon the objection and through the efforts and at the cost and expense of one or more creditors, * * * the reasonable costs and expenses of such creditors in obtaining such refusal, revocation, or setting aside, or in adducing such evidence; (4) taxes legally due and owing by the bankrupt to the United States or any State or any subdivision thereof: *Provided*, That no order shall be made for the payment of a tax assessed against any property of the bankrupt in excess of the value of the interest of the bankrupt estate therein as determined by the court: *And provided further*, That in case any question arises as to the amount or legality of any taxes, such question shall be heard and determined by the court; and (5) debts owing to any person, including the United States, who by the laws of the United States in [sic] entitled to priority, and rent owing to a landlord who is entitled to priority by applicable State law: *Provided, however*, That such priority for rent to a landlord shall be restricted to the rent which is legally due and owing for the actual use and occupancy of the premises affected, and which accrued within three months before the date of bankruptcy.

(11 U.S.C. 1952 ed., Sec. 104.)

SEC. 67 [As amended by Sec. 1, Act of June 22, 1938, *supra*, and Sec. 21(c) and (d), Act of July 7, 1952, *supra*]. LIENS AND FRAUDULENT TRANSFERS.—a. * * *

b. The provisions of section 60 of this Act to the contrary notwithstanding, statutory liens in favor of employees, contractors, mechanics, landlords, or other classes of persons, and statutory liens for taxes and debts owing to the United States or to any State

or any subdivision thereof, created or recognized by the laws of the United States or of any State, may be valid against the trustee, even though arising or perfected while the debtor is insolvent and within four months prior to the filing of the petition initiating a proceeding under this Act by or against him. Where by such laws such liens are required to be perfected and arise but are not perfected before bankruptcy, they may nevertheless be valid, if perfected within the time permitted by and in accordance with the requirements of such laws, except that if such laws require the liens to be perfected by the seizure of property, they shall instead be perfected by filing notice thereof with the court.

c. Where not enforced by sale before the filing of a petition initiating a proceeding under this Act, and except where the estate of the bankrupt is solvent: (1) though valid against the trustee under subdivision b of this section, statutory liens, including liens for taxes or debts owing to the United States or to any State or any subdivision thereof, on personal property not accompanied by possession of such property, and liens, whether statutory or not, of distress for rent shall be postponed in payment to the debts specified in clauses (1) and (2) of subdivision a of section 64 of this Act and such liens for wages or for rent shall be restricted in the amount of their payment to the same extent as provided for wages and rent respectively in subdivision a of section 64 of this Act; and (2) the provisions of subdivision b of this section to the contrary notwithstanding, statutory liens created or recognized by the laws of any State for debts owing to any person, including any State or any subdivision thereof, on personal property not accompanied by possession of, or by levy upon or by sequestration or distraint of, such property, shall not be

valid against the trustee: *Provided, however,* That so much of clause (1) of this subdivision c as restricts liens for wages and rent and clause (2) of this subdivision c shall not apply in proceedings under chapter X of this Act, unless an order shall be entered therein directing that bankruptcy be proceeded with, or in proceedings under section 77 of this Act. The court may on due notice order so much of any lien in excess of the restricted amount under clause (1) and any lien invalid under clause (2) of this subdivision c to be preserved for the benefit of the estate and, in any such event, such lien for the excess and such invalid lien, as the case may be, shall pass to the trustee.

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(11 U.S.C. 1952 ed., Sec. 107.)

No. 16348

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

UNITED STATES OF AMERICA,

Appellant,

vs.

IRVING I. BASS, Trustee in Bankruptcy of the Estate of
LELAND CAMERON, Bankrupt,

Appellee.

On Appeal From the Order of the United States District
Court for the Southern District of California.

BRIEF OF APPELLEE.

QUITTNER, STUTMAN & TREISTER,

639 South Spring Street,

Los Angeles 14, California,

Attorneys for Appellee.

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BRIEF OF APPELLEE.

Statement.

The facts are correctly set forth in Appellant's "Statement." (Op. Br. pp. 2-5.)

Question Presented.

Does interest cease to accrue upon statutory lien claims as of the date of bankruptcy, or are such claims entitled to post-bankruptcy interest to the date they are actually paid by the Trustee?

ARGUMENT.

Post-Bankruptcy Interest Is Not Allowable on Statutory Lien Claims, Including Tax Lien Claims.

As conceded by Appellant (hereinafter sometimes referred to as the "Government"), it has long been the general rule that claims in bankruptcy cease to accrue interest after the filing of the petition.¹ Prior to 1949, an exception to this general principle was usually made in the case of debts owing to taxing agencies. In that year, however, *New York v. Saper*, 336 U. S. 328 (1949), a decision involving both New York and federal taxes, eliminated the exception.

The justification for denying post-bankruptcy interest on tax claims was subsequently well stated by the Fourth Circuit in an opinion which the Supreme Court affirmed:

"The real reason . . . is that the delay resulting from the institution of the proceeding should not be permitted to benefit one class of creditors at the expense of another, but that the rights of all should be determined as of the commencement of the proceeding. It is easy to see that post bankruptcy interest on tax claims in ordinary bankruptcy comes out of assets to which other creditors would be entitled . . . [N]o class of creditors should be allowed to profit at the expense of another because of a delay for which the law is responsible."

United States v. Edens, 189 F. 2d 876, 877-878 (C. A. 4, 1951), *aff'd* 342 U. S. 912.

¹"More than forty years ago Mr. Justice Holmes wrote for this Court that the rule stopping interest at bankruptcy had then been followed for more than a century and a half. He said the rule was not a matter of legislative command or statutory construction but, rather, a fundamental principle of the English bankruptcy system which we copied." *New York v. Saper*, 336 U. S. 328, 330 (1949).

Concededly, the *Saper* and *Edens* decisions dealt with ordinary or non-lien taxes, whereas in the present case the Appellant's claim is supported by a statutory lien which arose before bankruptcy under the provisions of Sections 6321 and 6322 of the Internal Revenue Code.² But the existence of a statutory lien, while significant in bankruptcy for some purposes,³ does not alter the situ-

²Throughout the Government's brief, it is frequently asserted with considerable emphasis that the tax lien in question became "perfected" prior to bankruptcy. Actually, "perfection" is a concept having no materiality in the present case. It was stipulated that the assessment was made before bankruptcy [Tr. R. pp. 9-10]; and by statute, the tax lien arose at the time of assessment. I. R. C., Section 6322. Under Section 67b of the Bankruptcy Act, 11 U. S. C., Section 107b, a statutory lien *arising* prior to bankruptcy may be "perfected" thereafter; the date of "perfection" accordingly is not crucial under this section.

Section 67c(1) of the Act, 11 U. S. C., Section 107(c)(1), provides in effect for subordination of the federal tax lien on personality to administration expenses and priority wage claims unless the Government takes possession of the liened property prior to bankruptcy. The Appellant does not contend that its lien was "perfected" in the sense of a taking of possession, for this never occurred; there is no dispute but that the postponement provisions of Section 67c do apply in the present case.

The only other meaning which "perfection" could have here relates to I. R. C., Section 6323, which makes the tax lien invalid as against a mortgagee, pledgee, purchaser or judgment creditor until the prescribed notice is recorded. There is nothing in the present record to indicate whether the notice was filed before or after bankruptcy, if indeed it has ever been filed. Moreover, even this is unimportant since a trustee in bankruptcy has been held to be unprotected by I. R. C., Section 6323, regardless of the notice filing. *United States v. England*, 226 F. 2d 205 (C. A. 9, 1955). (See Op. Br. p. 19, n. 6.)

In short, the "perfection" concept neither adds to nor detracts from the Government's position, and the repeated use of the word in this case can serve no purpose other than possibly to cloud the real issue.

³A tax claim supported by a statutory lien ranks higher in bankruptcy than non-lien taxes, even in cases such as the present one where the lien is postponed by Section 67c(1) of the Bankruptcy Act, 11 U. S. C., Section 107c(1). Thus, the Government's lien

ation insofar as the Government's right to post-bankruptcy interest is concerned. Appellant, of course, strongly relies on the fact that I. R. C., Section 6321 creates a lien which, as a general proposition, supports both the principal of the tax and the interest accrued thereon. Appellee has no quarrel with the Government's analysis of the nature of its lien. (Op. Br. pp. 13-19.) If bankruptcy had not occurred, he would agree with Appellant that the lien could not be discharged from the taxpayer's property unless all interest as well as the tax were paid. (See I. R. C., Sec. 6322.)

What the Government overlooks, however, is the fact that a statutory lien does not by itself create an independent liability; rather, it only acts as security for a debt otherwise owing, and cannot secure more than the amount validly due. Section 6321 of the Internal Revenue Code, which provides for the tax lien, does not impose any liability upon the taxpayer to pay interest, or even to pay the tax. It merely grants the Director a means of securing collection of moneys due him under other sections of the Code. The provision creating the duty to pay interest on delinquent taxes—whether or not the lien ever arises—is I. R. C., Sec. 6601. This section (or, more accurately, its counterpart under the former Internal Revenue Code)

claim is paid its full amount, exclusive of disallowed interest, immediately following payment of administration expenses and priority wages, and ahead of general taxes in the fourth priority class created by Section 64a of the Act, 11 U. S. C., Section 104a. If there were no lien, Appellant would have to share pro rata with other tax claimants. For this reason, it is misleading for the Government to suggest that disallowance of post-bankruptcy interest is tantamount to relegating its statutory lien claim to the status of a mere fourth priority. (See, *e.g.*, Op. Br. pp. 28, 31-32.)

is exactly the one involved in *New York v. Saper, supra*, and cases such as *United States v. Edens, supra*, which followed. The Government argued in *Saper* that the Code made the interest a part of the tax, and that nothing in the Bankruptcy Act called for a disallowance of a portion of the tax claim. As noted above, the Supreme Court rejected this contention and held that despite the revenue statute, the historic rule cutting off post-petition interest governed the amount for which tax claims are allowable in bankruptcy:

“Moreover, there is no interest except that which accrues according to law—it is exactly such interest that the ‘fundamental principle’ cuts off as of bankruptcy.” (*New York v. Saper*, 336 U. S. at 331-332.)

. . .

“It has been held that federal taxes ordinarily bear interest even in the absence of statute. . . . But we do not think either such a rule or statutory provision could be permitted to negative the Bankruptcy Act’s requirement in that respect if the latter be to the contrary, as we think it is.” (*Id.* at 340-341, n. 18.)

In view of the foregoing, it is fallacious for the Government to urge that disallowance of post-bankruptcy interest constitutes a partial invalidation of the tax lien which is not authorized by the Bankruptcy Act. (*E.g.*, Op. Br. pp. 37-38, 51.) The real issue concerns the amount validly allowable in bankruptcy on the claim for which the lien is security. Whatever this sum may be,

the statutory lien will be fully recognized.⁴ It is Appellee's position that *Saper* furnishes the answer to this crucial question.

The Government, however, attempts to bring itself within certain exceptions to the general rule against post-bankruptcy interest which have been applied in some decisions involving contractually secured claims. The extent of these exceptions, even in cases of a consensual security, is far from clear and has never been decided by the Supreme Court.⁵ In the *Saper* case, the Court noted in passing only two situations where the general rule did not apply:

"if the alleged 'bankrupt' proved solvent, creditors received post-bankruptcy interest before any surplus reverted to the debtor . . . ; and if securities held by a creditor as collateral produced interest or dividends during bankruptcy such amounts were applied to post-bankruptcy interest. . . ." (336 U. S. at 330, n. 7.)

Neither of these exceptions, of course, helps the Appellant in the present case. Nevertheless, it must be admitted that a third type of exception has been announced by certain Courts of Appeal, notably by the Sixth Circuit in *In re Macomb Trailer Coach*, 200 F. 2d 611 (1953), and by this Court in *Palo Alto Mutual Savings and Loan*

⁴When the problem is correctly analyzed, there is obviously no merit to the Government's argument that an affirmance of the order below would make the right to post-bankruptcy interest turn on the results of the lienor's race to take possession of the lienor's assets before bankruptcy. (Op. Br. p. 26.) If, as Appellee submits, there is a general rule which cuts off post-petition interest, even a lienor in possession could not realize upon the security for more than the total amount owed him under the law—and this amount would not include the disallowable interest factor.

⁵One of the excepted categories concerns the case of the solvent debtor. Since the cutting off of post-petition interest is a rule of *insolvency* practice, it probably would be more technically accurate to term the situation of the solvent debtor one where the general rule did not apply, rather than considering it an exception to the rule.

Ass'n v. Williams, 245 F. 2d 77 (1957), and *Jefferson Standard Life Ins. Co. v. United States*, 247 F. 2d 777 (1957), namely:

“where . . . the proceeds of the sale of the mortgaged properties are sufficient to pay post-bankruptcy interest to the secured creditor.” (245 F. 2d at 79.)

To allow post-petition interest on a statutory lien on the theory that it fits within this third exception would run counter to the weight of present authority, as will be seen below. Moreover, such a step is not required by the logic of the Bankruptcy Act, nor, when the full implications are considered, is it supported by the so-called policy considerations urged by the Government.

The third exception, at least as it was stated by this Court in the *Palo Alto* opinion quoted above, seems to apply to “mortgages” or trust deeds, and no doubt to other types of bargained for security, but is not phrased in terms readily applicable to statutory liens. No decision of a Court of Appeals has as yet so applied it.

This third exception, furthermore, becomes awkward in form when it is extended to the federal tax lien. That is to say, the Government’s statutory lien is a floating, general charge on all the taxpayer’s property and rights to property. (I. R. C., Sec. 6321.⁶) Unlike the cases in-

⁶The Government’s opening brief discusses at several points the question of whether the federal lien is “general” or “specific” or both, a matter which Appellee deems to be of no importance. Whether a lien is general or specific, choate or inchoate, perfected or unperfected, involves concepts that are relevant in cases of competition for priority between the federal lien and other security devices; they have little or no bearing, however, on the rights of the tax lien *vis-a-vis* a trustee in bankruptcy. See note 2, *supra*. When Appellee designates the tax lien as “general” in this brief, all that is meant is that the lien reaches every interest or right owned by the taxpayer-bankrupt, and thus everything which might become a part of the bankrupt estate.

volving the usual contractual security, the property subject to the tax lien, being the entire bankrupt estate, must always be sufficient to pay the interest in full, or else other creditors could not possibly receive any dividend. In effect, the third exception as applied under the Government's contention in this case would read: "Post-bankruptcy interest is payable on the federal tax lien whenever the total assets of the estate are sufficient to pay it."⁷ The language used in *Palo Alto* to define the third type of exception there involved is hardly well suited to a description of the result urged by the Government here.

Nevertheless, Appellant maintains in effect that the third exception refers to secured claims, that a statutory lien is a type of secured claim, and that the Bankruptcy Act does not distinguish in any material respect between kinds of secured indebtednesses. To be sure, for some purposes a statutory lien is a secured debt in bankruptcy and receives a treatment different from that accorded unsecured claims. But the District Judge in his opinion below pointed out several significant factual differences between consensual and statutory liens. The Bankruptcy Act, moreover, itself makes certain distinctions between statutory liens, on the one hand, and claims involving contractual security, on the other, treating the former less favorably. These distinctions, Appellee submits, are important in the resolution of the present issue concerning post-bankruptcy interest.

It is fundamental that contracted for liens and encumbrances—*e.g.*, trust deeds, mortgages, conditional sales

⁷Subject, of course, to prior payment of administration expenses and priority wages in cases affected by Section 67c(1) of the Act, 11 U. S. C., Sec. 107c(1).

agreements and the like—which are valid under applicable state law are unaffected by bankruptcy. Statutory liens, however, usually feel the impact of the filing of the petition. Thus, Section 67c(2) of the Bankruptcy Act, 11 U. S. C., Sec. 107c(2), renders void as against the trustee most state-created statutory liens on personal property unless the lienor has seized or levied upon the assets prior to bankruptcy. More in point here, under Section 67c(1), 11 U. S. C., Sec. 107c(1), federal and state statutory tax liens on personalty, while not invalidated, are subordinated to the payment of expenses of administration and priority wage claims, unless the tax collector has taken possession of the property before bankruptcy.

The foregoing provisions of the Act are obviously relevant to the present problem. One main reason for the general rule denying post-petition interest is that “no class of creditors should be allowed to profit at the expense of another because of a delay for which the law is responsible.” (*United States v. Edens*, 189 F. 2d 876, 878 (C. A. 4, 1951), *aff’d* 342 U. S. 912.) In situations involving contracted for security, the trustee can avoid the accrual of interest by promptly paying the secured debt which is unaffected by bankruptcy. Accordingly, little or no delay is compelled by law. Usually, however, he cannot act with similar dispatch in the case of a tax or other statutory lien, where, as here, the postponement provisions of Section 67c(1) apply. Until the amount of the priority wages are determined, a matter generally entailing at least the expiration of the six months claim period under Section 57n, 11 U. S. C., Sec. 93n, and until allowances are made by the court for expenses of administration, an event which of necessity must occur

at the closing of the estate, the Act itself prevents the trustee from paying statutory lien claims, since they are junior in priority to the two described classes.⁸ A holding that other creditors must suffer by the allowance of interest to the tax collector during the compulsory waiting period would not seem justified in view of the reason for the rule denying post-bankruptcy interest.

The weight of the present authorities is in accord with Appellee's position. A leading treatise, 2 Remington on Bankruptcy, pp. 224-225, states the law as follows:

"A governmental or public claim can include interest in like manner and to the same extent as any other claim, but to no greater extent. It cannot include interest accruing after the filing of the bankruptcy or reorganization petition, even though it has been reduced to lien form."

While no Court of Appeals has as yet decided the matter, with only one exception all the reported decisions of the District Courts and the referees in bankruptcy have denied post-bankruptcy interest on statutory lien claims, even in jurisdictions observing the third exception which permits such interest on contractually secured

⁸For these reasons, it is simply incorrect for the Government to assert that "No delay until final distribution is requisite in the case of a secured claim" (Op. Br. p. 50), if, as the context implies, the statutory tax lien is included within the term "secured claim."

In the unusual case where the Government has actually seized the lien property before bankruptcy, Appellee's argument based on Section 67c(1) admittedly loses force (although the other reasons set forth for denying post-bankruptcy interest do not depend on the fact of possession). The right to post-bankruptcy interest, however, should not turn on the physical location of the assets. See note 4, *supra*. Appellee's point is that Section 67c(1) must be given great weight in determining a general rule concerning interest on statutory liens, because its postponement provisions do apply in the vast majority of cases, including the present one.

debts. Directly in point is *In re Lykens Hosiery Mills*, 141 Fed. Supp. 895, 897-898 (S. D. N. Y., 1956), where the Court held:

“With respect to the question of post-petition interest, the general rule is well settled that interest ceases to run on secured and unsecured claims as of the date of the filing of the petition under the Bankruptcy Act. *City of New York v. Saper*, 336 U. S. 328, 69 S. Ct. 554, 93 L. Ed. 710; *Vanston Bondholders Protective Committee v. Green*, 329 U. S. 156, 67 S. Ct. 237, 91 L. Ed. 162; *Sexton v. Dreyfus*, 219 U. S. 339, 31 S. Ct. 256, 55 L. Ed. 244. This proposition is also applicable to tax claims which have been reduced to liens. *In re Industrial Machine & Supply Co.*, D.C.W.D. Pa. 1953, 112 F. Supp. 261. However, the government does not predicate its claim for post-petition interest upon the ground that it possesses a validly perfected tax lien. The government contends that it is a secured creditor holding security which is more than sufficient in value to pay both principal and interest on its claim, and that, therefore, its claim for post-petition interest should be allowed under Section 63, subdivision a(1) of the Bankruptcy Act as an exception to the general rule.

“It is well settled that there are certain exceptions to the general rule with respect to the payment of interest on secured claims. Under the first exception, post-petition interest is allowed where the security held produces income during the administration of the bankrupt’s estate. *Vanston Bondholders Protective Committee v. Green*, 329 U. S. 156, 67 S. Ct. 237, 91 L. Ed. 162; *Sexton v. Dreyfus*, 219 U. S.

339, 31 S. Ct. 256, 55 L. Ed. 244. The second exception arises if in the administration of the bankrupt estate it develops that the estate is solvent. In such case interest is allowed on secured claims up to the date of payment of said claims. *Brown v. Leo*, 2 Cir., 1929, 34 F. 2d 127. A third exception has been recognized by the courts, and it is this exception upon which the government relies in this proceeding. Where the value of the security is more than sufficient to pay both principal and interest thereon to the date of payment of the claim secured thereby, it has been held in *Weeks v. McInnis*, 6 Cir., 1952, 200 F. 2d 611, certiorari denied 345 U. S. 958, 73 S. Ct. 940, 97 L. Ed. 1378, that interest on said claim should be allowed to the date of payment.

“In the *Weeks* case, *supra*, post-petition interest was allowed on a vendor's lien on certain real estate for the balance of the purchase price which the debtor had contracted to pay. However, the security which the government possesses in this proceeding is in the form of a *general* lien perfected pursuant to the provisions of Section 3670 of the Internal Revenue Code of 1939, 26 U. S. C. A., ‘upon all property and rights to property, whether real or personal’. A general lien of this type is distinguishable from the specific security involved in those cases where the courts have seen fit to recognize the existence of an exception to the general rule that interest ceases to run on secured and unsecured claims as of the date of the filing of the petition in bankruptcy. The distinction lies in the fact that the specific security involved in the cases where an exception was found was usually the result of a voluntary transaction be-

tween the debtor and the creditor and the payment of interest was contemplated by the parties. This Court, therefore, is reluctant to extend the application of the third exception to allow interest on a tax lien to the date of payment where the security consists of a general lien 'upon all property and rights to property, whether real or personal' belonging to the bankrupt.

"Accordingly, I conclude that the Referee was correct in disallowing the government's claim for post-petition interest."

A similar holding was made in *In re Industrial Machine & Supply Co.*, 112 Fed. Supp. 261, 263 (W.D. Pa., 1953):

"The law appears clear and unequivocal that tax claims in bankruptcy, in an arrangement proceeding, or in a reorganization proceeding bear interest only to the date of bankruptcy or to the date of the filing of the arrangement or reorganization proceeding. *City of New York v. Saper*, Trustee in Bankruptcy, 336 U. S. 328, 69 S. Ct. 554, 93 L. Ed. 710 (Bankruptcy); *United States v. Edens*, 4 Cir., 189 F. 2d 876; Chapter X, 11 U. S. C. A. § 501 et seq. (Reorganization); *United States v. General Engineering & Manufacturing Co.*, 8 Cir., 188 F. 2d 80, 81; Chapter XI, 11 U. S. C. A. § 701 et seq. (Arrangement).

"As a matter of public policy the courts have recognized that as a general rule, after property of an insolvent passes into the hands of a receiver, interest is not allowed against the funds. The delay in distribution is the act of the law; it is a necessary incident to the settlement of the estate. *Thomas v. Western Car Co.*, 149 U. S. 95, 13 S. Ct. 824,

37 L. Ed. 663; Vanston Bondholders Protective Committee v. Green, 329 U. S. 156, 67 S. Ct. 237, 91 L. Ed. 162.

“The government has concurred in the view that tax claims against a bankrupt bear interest only until the date of bankruptcy, but seeks to distinguish between those tax claims reduced to liens and tax claims not reduced to liens, advancing the argument that the general rule of interest herein enunciated has application only to tax claims not reduced to liens.

“I find no basis in law or policy for this arbitrary distinction. A meticulous examination of the authorities reveals no such tortured classification.”

In re Young, 171 Fed. Supp. 317 (W. D. Wis., 1959), affirming the referee in bankruptcy and adopting his opinion, reached the same conclusion:

“This decisive Saper case was decided in 1949, almost 10 years ago. It transmitted to the Congress notice that if the termination date for interest on United States or other tax claims was to be other than the date of filing of the petition in bankruptcy, *it is or was the function of Congress, and not of the Courts, to make the change. It is significant, really significant, that the Congress, despite such notice, has remained entirely silent in the premises over this entire period.* And the Court adjudged, also, that a statutory provision for post-bankruptcy interest on tax claims must be more than a mere vague provision by the Congress.” (171 Fed. Supp. at 321.)

...

“However, the United States earnestly contends that the tax lien statute, above mentioned, and the perfection of its tax lien, give it the status of a secured creditor, and the privilege of post-bankruptcy interest.” (171 Fed. Supp. at 321.)

. . .

“ . . . the only provision with respect to interest in that [tax lien] statute is that the lien is on all property for the amount of the tax ‘including any interest’. This can mean only interest according to law, that is, to the date of filing the petition in bankruptcy.” (171 Fed. Supp. at 322.)

. . .

“It is important to note in the doctrine declared by the Court in the Saper case, *supra*, that much of the quote has to do with *secured claims*. For instance, a judgment properly docketed and processed places the judgment creditor in a secured status, in other words, renders him a secured creditor; *and the Bankruptcy Act, Sec. 63, sub. a (1), expressly denies such a secured creditor post-bankruptcy interest.*” (171 Fed. Supp. at 323.)

. . .

“Lastly, it is important to note, that when Congress enacted the tax lien statute, and this was subsequent to the decision in the Saper case, Congress did not see fit to include an express provision for post-bankruptcy interest on tax claims liened thereunder.” (171 Fed. Supp. at 323.)

. . .

“The Referee is convinced that the statutory tax lien provisions are designed to aid in the collection of taxes, and that a perfected tax lien gives the tax-

ing unit no more rights or privileges than is accorded judgment creditors by Sec. 63, sub. a(1) and (5) of the Bankruptcy Act, and this conclusion seems inevitable especially in view of the failure of Congress to repudiate this 'general principle' of and 'implicit' in our system of bankruptcy to the effect that interest terminates at the time of bankruptcy." (171 Fed. Supp. at 324-325.)

Other reported District Court decisions disallowing post-petition interest to the Government's statutory lien claim are *In re Mighell*, 168 Fed. Supp. 811 (D. Kan., 1958), and the decision of Judge Yankwich in the case here under appeal, *In re Cameron* 166 Fed. Supp. 400 (S. D. Cal., 1958).⁹

United States v. Harrington, currently pending as No. 7812 in the Fourth Circuit according to the Government's brief (Op. Br. p. 34), involves an appeal from the order of District Judge Hayes in *Matter of G. N. Childress*, affirming the decision of Referee in Bankruptcy Reynolds (M. D. N. C., 1958). The Referee's opinion is reported

⁹*Marcalus Manufacturing Co. v. United States*, 169 Fed. Supp. 821 (Ct. Cls., 1959), cited in the Government's brief (Op. Br. p. 34, n. 9) seems to lend some support to Appellee's position here. Although the opinion does not clearly state that a lien was involved, it does set forth that the tax assessment was made before the reorganization proceeding was filed, with the necessary result that a lien must have arisen prior to the petition. Post-petition interest was allowed in *Marcalus* for the sole reason that the debtor's estate was solvent. At least for the purpose of statutory lien claims, the Court recognized only two exceptions to the general rule prohibiting post-bankruptcy interest, namely, the solvency situation and the case where the security itself produced income during bankruptcy. It was not intimated in any way that the Government might be entitled to interest on its tax lien because of the so-called third exception upon which Appellant must depend in the present case.

in 33 J. Nat'l Ass'n Ref. in Bankr. 12, 15 (Jan. 1959), in part as follows:

“What is said above would seem to be dispositive of the question here, since post-bankruptcy interest cut off under the Act can hardly be invigorated by the existence of a tax lien. However, the government contends that the *Saper decision* may be disregarded and that such decisions as *In re Industrial Machine & Supply Co.*, 112 F. Supp., 261 (D. C. Pa. 1953) and *In re Lykens Hosiery Mills*, 141 F. Supp., 895, *supra*, holding that liened tax claims are ordinarily no different than unliened tax claims, are not here applicable. The ground advanced is that in this instance the bankrupt estate is adequate to pay interest on the tax lien claims, and that by reason thereof the present claims come within an exception to the general post-petition interest rule recognized in *Weeks v. McGinnis*, 200 F. (2d) 611 (6 Cir., 1952). *certiorari denied* 345, U. S. 958, 97 L. ed. 1378, 73 S. Ct. 940.”

. . . .

“The suggested analogy breaks down rapidly, since the liens for taxes as against personalty are postponable to the extent specified in Section 67(c) of the Act. (Being subordinated to cost of administration and wage claims). Moreover, a general lien of this type is distinguishable in its fundamental nature from the specific security involved in the *Weeks* case, and in other cases where post-bankruptcy interest has been allowed on private liens, *cf. Brown v. Leo*, 34 F. (2d) 127 (2 Cir., 1929); *Sexton v. Dreyfus*, 219 U. S. 339, 55 L. ed. 244, 31 S. Ct. 256. Unlike liens based upon a voluntary contract

entered into between individual parties, the tax liens here do not arise out of any transaction contributing a prior economic benefit to the bankrupt. Where the transaction is in the ordinary course of business, the lienholder extends something of value to his debtor and thus indirectly to others dealing with the debtor. Considerations of fair play thus impel the allowance to the lienholder, as against unsecured lesser creditors, of whatever he had the foresight to secure to the extent that his security will permit, including interest until payment. A taxing agency, however, has made no investment in the estate of the debtor, and when it seeks to recover interest it seeks to earn a return without having extended any economic benefit or taken any economic risk. Therefore, while it is appropriate that general creditors should yield to secured creditors who have bargained for security itself sufficient to provide for the payment of interest, no similar appropriateness appears in forcing them to yield to a tax lien. This is the holding of the District Judge in *In re Lykens Hosiery Mills*, *supra*, and I agree with his reluctance to extend the exception of the *Weeks* case this far.”

Other holdings by the referees in bankruptcy, although rarely appearing in official reports, seem to be in line with the foregoing precedents. For example, the report of the District Court’s opinion in *In re C. J. Dick Towing Company*, 161 Fed. Supp. 751 (S. D. Tex., 1958) ¹⁰ sets forth that the referee disallowed post-petition interest on the federal tax lien, a point on which the Government did not there seek a review.

¹⁰Affirmed by the Fifth Circuit on May 13, 1959, C. C. H. Bankruptcy Law Reports, No. 103, June 4, 1959, par. 59,490.

The only case which supports Appellant's position is Judge Nordbye's opinion in *In re Parchem*, 166 Fed. Supp. 724 (D. Minn., 1958). *Parchem* has been criticized, however, in a note in the Journal of the National Association of Referees in Bankruptcy, a criticism which Appellee submits is sound:

"The *Lykens* case, *supra*, denied the government's claim as a tax lien is general and non-consensual, as distinguished from the more usual secured creditor who is allowed interest to the date of payment, if the estate's equity in the mortgaged property is large enough to pay it. The present case felt that this was not a valid distinction and refused to follow it. Three recent Supreme Court cases were cited, all of which hold that a Federal lien has an equal status with a specific lien, *United States v. City of New York*, 347 U. S. 81 (1953); *United States v. R. F. Ball Construction Co., Inc.*, 355 U. S. 587 (1958); *United States v. White Bear Brewing Company*, 352 U. S. 1010 (1955). None of these cases, however, were concerned with bankruptcy, or the question here involved, but dealt instead with various priority of lien questions.

"In *City of New York v. Saper*, 336 U. S. 328 (1948), the Supreme Court resolved a conflict between the Circuit Courts of Appeals by holding the post-bankruptcy interest should not be allowed on a tax claim. The present case does not mention the *Saper* case, perhaps concluding it does not apply where there is a perfected tax lien. Instead, this court looks only to the usual wording of the exception involved to the no post-bankruptcy interest rule, and decides that a tax lien fits within the literal meaning. In so doing, however, the court cuts a

major inroad into the *Saper* doctrine by allowing interest to the date of payment in the bulk of bankruptcy cases. No doubt this case will be relied upon by the Commissioner of Internal Revenue in many other jurisdictions. Taxes are given a favored treatment at present under the Bankruptcy Act, however, interest is not a tax. In addition to full satisfaction of its tax lien, the government would receive interest past the date of bankruptcy. The funds used to pay that interest will in most cases come from the pockets of the unsecured creditors. It would seem that the policy prohibiting tax penalties would apply as well to post-bankruptcy tax interest.” (33 J. Nat’l Ass’n Ref. in Bankr. 55, 56 (April, 1959).)

The *Parchem* decision was based on a belief in the magic of the labels “perfected” or “specific” as applied to the federal tax lien, concepts which, as seen elsewhere in this brief, have no materiality for present purposes. See footnotes 2 and 6, *supra*. In failing to distinguish between statutory and consensual liens, moreover, *Parchem* not only overlooks the effect upon the former had by Section 67c(1) of the Bankruptcy Act, 11 U. S. C., Sec. 107c(1), but also does not recognize the fact that “The discretionary control of a court over interest not based on a contract is traditional.” (*Sword Line v. Industrial Commissioner of State of N. Y.*, 212 F. 2d 865, 870 (C. A. 2, 1954).)¹¹

¹¹Although the taxes in *Sword Line* were not supported by liens, the majority opinion apparently does not distinguish between liened and non-liened taxes insofar as the right to interest is concerned.

Thus, with the lone exception of *Parchem*, the lower courts have seen that the Supreme Court's opinion in *New York v. Saper*, 336 U. S. 328 (1949), is grounded on reasoning applicable to statutory lien claims. In this connection, the following language used in *Saper* is significant:

“Other decisions of this Court cited by petitioners [taxing agencies] on this point do not help their cause and require little discussion. *Dayton v. Stanard*, 241 U. S. 588, approved payment of interest to individuals who, during the course of a bankruptcy, paid off tax liens binding property of the bankrupt. The Court's decision was only that such parties, whose tax deeds were invalidated because at the time they were issued the property was *in custodia legis*, could be reimbursed out of the estate's general fund for both their advances and interest at the legal rate. This was simple equity since the claimants had paid taxes which the then §64(a) required the trustee to seek out and pay in full.” (336 U. S. at 336.)

The point is that the *Saper* Court distinguished the payment of post-bankruptcy interest on a tax lien in *Dayton v. Stanard*, not because statutory liens are entitled to such interest under an exception to the general rule, as the Government here contends, but for the sole reason that before the Chandler Act of 1938 all tax claims, liened or unliened, were payable by the trustee in full, including interest to the day of payment. Had the Court in *Saper* believed that the law contemplated post-

petition interest on tax liens whenever the assets were sufficient, it is reasonable to assume that this would have been set forth as a ground for distinguishing the *Dayton* case.¹²

Finally, the policy consideration advanced by Appellant, to the effect that allowance of post-bankruptcy interest is necessary in order to protect the public revenue (See, *e.g.*, Op. Br. p. 50), is without merit. In the first place, accepting it would mean the payment of similar interest to all non-governmental statutory lienors whose liens are not invalidated by Section 67c(2) of the Bank-

¹²In an attempted distinction of *Saper*, the Government seems to find some comfort in *Goggin v. California Labor Div.*, 336 U. S. 118 (1949), a case in which the question of allowability of interest accruing either before or after bankruptcy was not before the Court, nor was it discussed. Rather, the decision concerns whether the postponement provisions of former Section 67c applied where the Government seized the lien assets prior to bankruptcy, but thereafter voluntarily relinquished them to the trustee. Appellant's brief, however, contains an unfortunate typographical error when it quotes from *Goggin* for the proposition that the Supreme Court there interpreted the intent of Congress "to continue to safeguard interest [sic] under liens perfected before bankruptcy." (Op. Br. p. 43.) Actually, the Court in *Goggin*, in the quotation referred to, used the word "interests" rather than "interest," a difference of tremendous importance for present purposes. See 336 U. S. at 126-127.

That the right to "interest" was not considered in *Goggin* was expressly stated:

"There is no issue here as to the amount of penalties or interest included in the Collector's claim for taxes or as to the date to which interest on such claim shall be computed. There is no issue here as to any difference between statutory liens which were perfected more than four months before the filing of the petition in bankruptcy or those perfected within less than that time." 336 U. S. at 123, n. 3.

ruptcy Act, 11 U. S. C., Sec. 107c(2), including mechanics' liens, repairmen's liens, warehousemen's liens, and the myriad others.¹³ Except for cases where Section 67c(2) applies, their statutory liens are just as much secured indebtednesses as are the tax liens. If the so-called third exception to the general rule prohibiting interest after bankruptcy is extended to the present case, it would be impossible logically to refuse to apply it where a private statutory lienor is involved. This is the reason that Appellee believes the question in this case concerns post-bankruptcy interest on all statutory liens, rather than the more limited statement of the issue set forth by the Government.

Secondly, the public revenues are depleted to the same extent when interest is denied to ordinary taxes as when it is disallowed on those supported by liens. Yet, the Supreme Court in *Saper* found the present policy argument unconvincing.

In the third place, more forceful policy considerations can be urged in favor of the general unsecured creditor, whose dismal plight in bankruptcy is only too well known. The allowance of interest on claims, both secured and un-

¹³State-created statutory liens, as well as federal liens, on real estate are unaffected by Section 67c(2). State-created statutory liens (other than state tax liens) on personal property are subject to invalidation by that section only in cases where the lienor has not seized or levied on the personalty before bankruptcy. State tax liens apparently stand on the same footing as federal liens, being subject to postponement under Section 67c(1), but not to the voiding provisions of section 67c(2). *Rochelle v. City of Dallas*, 264 F. 2d 166 (C. A. 5, 1959).

secured, has long been recognized to involve “a balance of equities.” For example, in *Vanston Committee v. Green*, 329 U. S. 156, 165 (1946), a case where the Court disallowed interest which accrued after bankruptcy on unpaid secured bond interest, it was said:

“It is manifest that the touchstone of each decision on allowance of interest in bankruptcy, receivership and reorganization has been a balance of equities between creditor and creditor or between creditors and the debtor . . . In this case, where by order of the court interest was left unpaid, we do not think that imposition of interest on that unpaid interest can be justified by ‘an application of equitable principles.’ ”¹⁴

Requiring trade creditors, who are already unfortunately treated by the Bankruptcy Act, to suffer further by the payment of post-bankruptcy interest on statutory liens out of the only source of their dividends, would hardly be the kind of “equity” referred to in the *Vanston* opinion. Especially is this so where, in most cases as seen above, a substantial delay in paying the lien claim is compelled by the law itself.

¹⁴The question of whether simple interest on the secured indebtedness accrued after bankruptcy was not before the Court in the *Vanston* case.

Conclusion.

For the foregoing reasons, the order of the District Court should be affirmed.

Respectfully submitted,

QUITTNER, STUTMAN & TREISTER,

By GEORGE M. TREISTER,

Attorneys for Appellee.

No. 16348

**In the United States Court of Appeals
for the Ninth Circuit**

UNITED STATES OF AMERICA, APPELLANT

v.

**IRVING I. BASS, TRUSTEE IN BANKRUPTCY OF THE
ESTATE OF LELAND CAMERON, BANKRUPT, APPELLEE**

**ON APPEAL FROM THE ORDER OF THE UNITED STATES DISTRICT
COURT FOR THE SOUTHERN DISTRICT OF CALIFORNIA**

REPLY BRIEF FOR THE APPELLANT

**HOWARD A. HEFFRON,
Acting Assistant Attorney General,
LEE A. JACKSON,
I. HENRY KUTZ,
KARL SCHMEIDLER,**

*Attorneys,
Department of Justice, Washington 25, D.C.*

**LAUGHLIN E. WATERS,
United States Attorney.
EDWARD R. McHALE,
ROBERT H. WYSHAK,
Assistant United States Attorneys.**

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REPLY BRIEF FOR THE APPELLANT

The United States believes that it has covered in its opening brief¹ most of the contentions made by the trustee. There are, however, a few matters discussed by the trustee which warrant further comment.

A. Although the trustee states (p. 4) that he "has no quarrel with the Government's analysis of the nature of its lien," nevertheless throughout his brief he attempts the contrary, i.e., to limit the force and effect of the Federal tax lien in a bankruptcy proceeding vis-a-vis a consensual lien and to treat a Federal tax claim secured by a pre-existing lien as having no greater right to interest than an unsecured tax claim.

¹ "Br." references are to the opening brief of the United States.

The United States does not quarrel with the trustee's contention (p. 4), that a lien does not by itself create an independent liability. This applies, of course, equally to a consensual lien. In the case of a consensual lien the underlying obligation to pay the principal amount of the debt asserted to be owing, as well as interest upon such debt, arises by contract. In the case of taxes, the underlying obligation to pay the principal amount of the tax asserted to be owing, as well as interest upon the tax, arises by virtue of the taxing statute, here, the Internal Revenue Code of 1954.²

On the other hand, although a lien is a security device for the payment or discharge of a debt or duty, the significance of a lien, whether consensual or statutory, is not as limited as the trustee contends (p. 4). The lien becomes a charge upon the debtor's property, and a creditor's rights to collect amounts owing to him which his lien secures, particularly in bankruptcy, are enlarged by virtue of the property rights which title to the lien entails. See *Glass City Bank v. United States*, 326 U.S. 265; *United States v. City of Greenville*, 118 F.2d 963, 965 (C.A. 4th). See also *United States v. Bess*, 357 U.S. 51. (Br. 14-16, 18.) As Judge Learned

²The obligation to pay interest on unpaid withholding and F.I.C.A. taxes is imposed by Section 6601 of the 1954 Code (26 U.S.C. 1952 ed., Supp. II, Sec. 6601.) Section 6601(f) provides that interest shall be assessed, collected and paid in the same manner as the tax, and Section 6321 of the 1954 Code (26 U.S.C. 1952 ed., Supp. II, Sec. 6321) provides that the tax lien of the United States shall include any interest. Thus, it is clear that such interest is as much an integral part of the tax lien as the accrued principal amount of the tax.

Hand states in *Columbia Aircraft Co. v. United States*, 163 F. Supp. 932 (S.D.N.Y.), in distinguishing between the rights of unsecured and secured creditors to post-bankruptcy interest (p. 934) :

A creditor who obtains security for his debt does so because he is not content to accept the risk of the debtor's continued solvency, and his unwillingness to do so necessarily includes any interest upon the principal.

Also, there is no question but that a statutory lien for taxes is as binding and has as much force and effect as a consensual lien. See *United States v. New Britain*, 347 U.S. 81, wherein the Supreme Court stated as follows (p. 84) :

A mortgage is a specific lien, yet "[a] statutory lien is as binding as a mortgage, and has the same capacity to hold the land so long as the statute preserves it in force." *Rankin v. Scott*, 12 Wheat. 177, 179.

With one exception, which we contend is not relevant here,³ the Bankruptcy Act does not discriminate against a statutory lien in favor of a consensual lien. In our opening brief (pp. 7, 8) we have shown that the Bankruptcy Act does not contain any provision relating to the payment of post-bankruptcy interest,

³ A distinction in the Bankruptcy Act between a consensual lien and the federal tax lien exists by virtue of Section 67c(1) (11 U.S.C. 1952 ed., Sec. 107), which postpones the payment of tax liens on personal property not accompanied by possession to the payment of administrative expenses and wage claims, whereas the payment of consensual liens on personal property not reduced to possession is not similarly postponed. As we have shown (Br. 28-33, 38) this distinction is not material here. See also, *infra*, part D of this reply brief.

but that unsecured creditors have been denied such interest upon general principles of English equity which have been followed by the courts of this country. We have also shown (pp. 7, 8-10, 19-21) that equally long-standing English principles of equity which also have been followed by the courts of this country, have treated unsecured and secured creditors differently in bankruptcy and have recognized the right of secured creditors to such interest where the amount of the security is sufficient to satisfy both the principal and interest on the secured claim.

As we have shown, additionally, in other situations, including such matters as the time when the tax lien becomes perfected, priority of payment, property subject to the lien, including after-acquired property, the effect of the lien over property in the hands of debtors of the bankrupt or in the hands of transferees, right to obtain payment or enforcement of the lien and prevention of the federal tax lien's discharge, etc., the federal tax lien has consistently been treated as having at least as much force and effect as consensual liens. See Br. 16-17, 18-19, 31-33, 35-36, 50-52. See also *Am. Iron Co. v. Seaboard Air Line*, 233 U.S. 261. Finally, in our opening brief we have shown that, with respect to the question as to whether the United States should be entitled to obtain post-bankruptcy interest on its tax lien, there are no such material distinctions between the tax lien and those consensual liens which indisputably obtain such interest, as should preclude the former from obtaining this interest. Accordingly, we submit that the trustee's contention (pp. 3-4), that "the existence of a statutory lien, while significant in

bankruptcy for some purposes, does not alter the situation insofar as the Government's right to post-bankruptcy interest is concerned", is wrong.

The trustee's attempt to limit the recognition to be given the federal tax lien at the expense of other liens appears to overlook a basic factor, which we have pointed out (Br. 21-22, 23-25), that the bankruptcy court's jurisdiction over unsecured claims is much more extensive than its jurisdiction over claims secured by valid liens, both consensual or statutory. See Sections 2 and 68c of the Bankruptcy Act (11 U.S.C. 1952 ed., Secs. 11 and 109). A lien recognized as valid against the bankrupt's property prior to his adjudication remains effective against the trustee. When property of the bankrupt subject to a pre-existing valid lien passes to the trustee, it passes *cum onere*. *Burton v. Smith*, 13 Pet. 462, 483; *United States v. Bess*, 357 U.S. 51, 57; *Michigan v. United States*, 317 U.S. 338, 340. Thus, the trustee receives as part of the general estate only the equity in the bankrupt's property in excess of the lien. *Security Mortgage Co. v. Powers*, 278 U.S. 149, 153; *In re Quaker City Uniform Co.*, 134 F. Supp. 596 (E.D. Pa.), reversed on other grounds, 238 F. 2d 155 (C.A. 3d), certiorari denied, 352 U.S. 1030. Accordingly, since the provisions of the Bankruptcy Act which deal with proof, allowance and priority of claims (e.g., Sections 57, 63 and 64 (11 U.S.C. 1952 ed., Secs. 97, 103 and 104)), relate only to the bankrupt's property to which the trustee takes title, i.e., the general assets unencumbered by liens, these provisions apply

only to unsecured claims and do not affect lien claims. See *Allen v. See*, 196 F. 2d 608, 610 (C.A. 10th); 3 Collier on Bankruptcy (14th ed., 1956), Sections 57.19, 57.20 and 63.06. Thus, for example, although an unsecured creditor, including the United States for an unsecured tax claim, must file and prove his claim under Section 57, a secured creditor is not required to do so. (Br. 21-23.)

The inapplicability of Section 57 to lien claims is no different from the inapplicability of other provisions of the Bankruptcy Act dealing with claims against general assets of the bankrupt estate. For example, whereas the payment out of the general assets to unsecured creditors is governed by Section 64 (11 U.S.C. 1952 ed., Sec. 104), which, among other things, establishes priorities among certain classes of unsecured creditors, this section is not applicable to secured creditors. Payment to secured creditors is not governed by any provision of the Bankruptcy Act; instead, payment to them is based upon their security, and the order of payment to secured creditors is based upon the common law principle of first in time is first in right. See *In re Pennsylvania Central Brewing Co.*, 114 F. 2d 1010 (C.A. 3d). For example, the Supreme Court has held that the payment of a landlord's lien for rent is not governed by Section 64, and that such a lien must be paid before a claim for local taxes not secured by a lien, although at the date of the decision, taxes held the first priority under Section 64. *City of Richmond v. Bird*, 249 U.S. 174. See also *Ingram v. Coos County, Or.*, 71 F. 2d 889 (C.A. 9th); *In re Brannon*, 62 F. 2d 959 (C.A.

5th), certiorari denied, *sub nom. Ryan v. City of Dallas*, 289 U.S. 742. Likewise, it has been held that the mere fact that a claim was contingent at the date of an adjudication so as to render the claim not provable against the general estate under Section 63 (11 U.S.C. 1952 ed., Sec. 103) does not affect the validity of an existing lien for such an obligation. *Security Mortgage Co. v. Powers*, 278 U.S. 149, 155-156; *In re Westmoreland*, 298 Fed. 484 (N.D. Ga.), reversed on other grounds, 2 F. 2d 212 (C.A. 5th), certiorari denied, 267 U.S. 595. Again, it frequently has been held that a lien for unaccrued rentals is not affected by the bankruptcy of the lessee, notwithstanding that such rentals do not constitute a provable claim against the general estate; consequently where the property subject to the lien has been converted into cash by the trustee the lien creditors have been held entitled to payment from the proceeds of such property. *Martin v. Orgain*, 174 Fed. 772, 778-779 (C.A. 5th), certiorari denied, 216 U.S. 619; *Courtney v. Fidelity Trust Co.*, 219 Fed. 57 (C.A. 6th); *Britton v. Western Iowa Co.*, 9 F. 2d 488 (C.A. 8th). Similarly, because of the special position of liens under the Bankruptcy Act it also has been held that lienholders are not required to contribute to general expenses of administration but only to those expenses concerned with the property on which they have their liens. *Reconstruction Finance Corp. v. Cohen*, 179 F. 2d 773, 776-777 (C.A. 10th); 6 Remington on Bankruptcy (Fifth ed., 1952), Sections 2609 and 2610.

Where a secured creditor elects to rely solely on his security and remains out of the bankruptcy proceed-

ings, and the property subject to the lien either is real property or personal property in his possession, the terms of the security permitting, the secured creditor should be entitled to interest until the date of payment if the property secured by the lien is sufficient for this purpose. See *In re Brokol Manufacturing Co.*, 221 F. 2d 640 (C.A. 3d). A different result should not obtain, as the trustee also apparently recognizes in his brief (p. 6, fn. 4; p. 10, fn. 8), if a creditor who has a valid lien merely lacks possession of the property subject to the lien. Although, in this latter situation, the bankruptcy court could determine the validity and amount of the lien, once these have been established the lien may not be invalidated or its enforcement prevented. (Br. 24-26, 28-33.) *Goggin v. California Labor Div.*, 336 U.S. 118; *United States v. England*, 226 F. 2d 205 (C.A. 9th); *Reconstruction Finance Corp. v. Cohen*, 179 F. 2d 773, 776-777 (C.A. 10th); *United States v. Eiland*, 223 F. 2d 118 (C.A. 4th); *In re Brokol Manufacturing Co.*, 221 F. 2d 640 (C.A. 3d).

B. There is not any merit to the trustee's contention (p. 5), that it is fallacious for the United States to urge that disallowance of post-bankruptcy interest constitutes a partial invalidation of its lien. Interest is specifically included in the tax lien by Section 6321 of the 1954 Code (26 U.S.C. 1952 ed., Supp. II, Sec. 6321). By Section 6322 of the 1954 Code (26 U.S.C. 1952 ed., Supp. II, Sec. 6322) the lien (including interest) continues until liability for the amount assessed is satisfied. Accordingly, if at the time the petition in bankruptcy is filed the amount of the tax

subject to the lien is unpaid, and if under Section 6601 of the 1954 Code (26 U.S.C. 1952 ed., Supp. II, Sec. 6601) interest had accrued on the unpaid amount of the tax, then to permit the United States to obtain only such interest which accrued to the date of the filing of the petition in bankruptcy and to disallow the balance of the interest accruing thereafter to the time of payment of the tax, would result in the United States receiving a lesser amount than is called for under the terms of its lien. Clearly this would result in a partial invalidation of its tax lien.

Further, as we have shown, *supra*, the trustee's statement (p. 5), that the real issue concerns the amount validly allowable in bankruptcy on the claim for which the lien is security, actually begs the issue. Even with respect to mortgagees and "other types of bargained for security" which the trustee admits is entitled to post-bankruptcy interest (pp. 6-7), such interest would not be allowable solely on the debt unless the debt were secured. Accordingly, we submit that it is by reason of the security, rather than by reason of the underlying obligation, that the creditor obtains his right to post-bankruptcy interest.⁴

⁴The trustee's statement (p. 6), that the Supreme Court has never decided the extent to which post-bankruptcy interest should be allowed to secured creditors, while correct, is incomplete. In *Vanston Committee v. Green*, 329 U.S. 156, the Supreme Court, although denying the recovery by a mortgagee of interest upon interest for the period following the commencement of bankruptcy, recognized (pp. 164-165) the exception involved in the present case, and the payment of simple interest on the mortgage was allowed without contest (p. 159).

Further, the trustee's statement (p. 7), that no Court of Appeals decision has applied the exception involved in this

C. Although the trustee concedes (p. 3) that *New York v. Saper*, 336 U.S. 328, and *United States v. Edens*, 189 F. 2d 876 (C.A. 4th), affirmed, 342 U.S. 912, dealt with non-liened tax claims, nevertheless the trustee contends that the rationale of these decisions applies with equal force to liened tax claims (p. 21). We submit that in this respect the trustee errs. As we have shown in our original brief and in part A of our reply brief, *supra*, the United States sought to obtain post-bankruptcy interest in *Saper* upon the ground that unsecured tax claims were treated more favorably in bankruptcy than other unsecured claims and the general bankruptcy rule of disallowing post-bankruptcy interest to unsecured creditors should not apply to unsecured tax claims. The Supreme Court's rejection in *Saper* of this contention of the United States was based upon an analysis of the changes made by the Chandler Act amendments to Sections 57 and 64 of the Bankruptcy Act which manifested an intention by Congress to treat unsecured tax claims the same as other unsecured claims, with the result that the general bankruptcy rule of disallowing post-bankruptcy interest to unsecured creditors would apply to unsecured tax claims. The Supreme Court in *Saper* was not presented with and did not discuss the question as to whether the same result would

case to a tax lien, also is incomplete. There has not been any case in any Court of Appeals in which the United States sought to obtain post-bankruptcy interest on its tax lien until the present case and *United States v. Harrington*, which is currently pending in the Fourth Circuit (No. 7812).

apply to secured claims and its decision should not be given such effect, as the trustee attempts to do.

Further proof that neither the decision in *Saper* nor the rationale of that decision is applicable to lien tax claims is shown by the decision in *Goggin v. California Labor Div.*, 336 U.S. 118. Although *Goggin* was not concerned with post-bankruptcy interest, that case did involve a question concerning the validity of a lien tax claim of the United States. In holding that such a claim was to be treated as a secured debt under Section 67 of the Bankruptcy Act (11 U.S.C. 1952 ed., Sec. 107), the Supreme Court stated (pp. 126-129) that the Chandler Act did not suggest any abandonment of the general purpose of Congress to continue to safeguard interests under liens perfected before bankruptcy.⁵ *Goggin* was decided approximately five weeks before *Saper*. Accordingly, we submit that if *Saper* were intended to refer to lien tax claims this would have been made clear. However, the *Saper* opinion neither discussed lien tax claims nor cited the *Goggin* decision. See *Oppenheimer v. Oldham*, 178 F. 2d 386, 389 (C.A. 5th); *In re Macomb Trailer Coach*, 200 F. 2d 611, 613 (C.A. 6th), certiorari denied, *sub nom. McInnis, Trustee v. Weeks*, 345 U.S. 958. (See also Br. 26-27.) Although we do not question the applicability of the

⁵ On page 22, fn. 12, of his brief the trustee attempts to make too much of a typographical error in the brief of the United States (p. 43) where the word "interest" rather than "interests" was quoted from the *Goggin* opinion (336 U.S. 118, 126-127). Indeed, at another point in our brief (p. 32) the quotation is correctly given, and it is difficult to see how anyone could be misled.

Saper decision to unsecured claims, we do contend that it is not relevant to the present case.⁶

D. The essence of the trustee's position appears to be, as expressed by him (pp. 8-9), that the Bankruptcy Act distinguishes between consensual and statutory liens. We agree that Congress has in certain specific instances treated statutory liens differently from consensual liens. We submit, however, that the distinctions should be limited to those enacted by Congress. As we have shown (Br. 29-33, 38, 42-44) none of the differences concern post-bankruptcy interest. If Congress had intended to permit additional distinctions to exist surely it would have expressed them in the statute. In the absence of a statutory provision we submit that this Court should not assume such an intention.

The trustee (Br. 8-10, 20) appears to give much greater effect to Section 67c of the Bankruptcy Act (11 U.S.C. 1952 ed., Sec. 107) than is warranted. As we have pointed out (Br. 29-33, 38), Section 67c does not refer to or impair the right of the United States to obtain post-bankruptcy interest on its tax lien.

⁶ It does not appear that 2 Remington on Bankruptcy (1956 ed.), Sections 800-805, quoted by the trustee (p. 10) is applicable here. An analysis of this statement reveals that Remington was commenting upon the status of an unsecured claim. This is shown by the fact that the treatise in another section refers to the necessity of distinguishing between a tax lien and a tax priority (2 Remington on Bankruptcy, *supra*, Sections 905, 908) and to the granting of post-petition interest to a secured creditor (2 Remington on Bankruptcy, *supra*, Section 916). See also 3 Collier on Bankruptcy (14th ed., 1956), Section 64.403, and 4 Collier on Bankruptcy (14th ed., 1942), Section 67.24.

Section 67c distinguishes between tax liens, both Federal and state, and other state and local statutory liens. Under Section 67c(2) the latter may be invalidated under certain circumstances, whereas under Section 67c(1) payment of the former may only be postponed to two classes of creditors. We submit that if Congress had intended to have tax liens treated similarly to state statutory liens, it easily could have made Section 67c(2) applicable to tax liens. But it did not do so. See Section 67b. See also *Goggin v. California Labor Div.*, *supra*.

The impact of Section 67c(1), according to the trustee (pp. 9-10, 23-24), is that where the postponement provisions apply a trustee cannot pay a tax lien until after the amount of priority wages and expenses of administration are determined, so that other creditors would be adversely affected by the accrual of interest during a compulsory waiting period. In making such a contention the trustee has misinterpreted the word "postponed" as used in subsection c(1). He has interpreted it to mean postponed in time, a chronological delay. However, an examination of the statute, as well as the Committee Reports on the Act of June 22, 1938, c. 575, 52 Stat. 840 Sec. 1, the so-called Chandler Act, and of the Act of July 7, 1952, c. 579, 66 Stat. 420 Section 21(d), which amended Section 67c of the Bankruptcy Act, show that the word "postponed" was intended to relate to priority of payment and not in a delay in payment. See H. Rep. No. 2320, 82d Cong., 2d Sess., p. 13 (2 U.S.C. Cong. & Adm. News (1952) 1960, 1973). Accordingly, the trustee's contention loses much force.

In any event, Section 67c(1) does not affect tax liens on real property, so no delay need result in paying these liens. Further, as the trustee concedes (p. 10, fn. 8), if the United States has possession of personal property subject to a tax lien, Section 67c(1) is likewise inapplicable, and no delay need result. But even in the case where Section 67c(1) is applicable, there does not appear to be any basis for the trustee's assumption of a compulsory waiting period. There does not appear to be any reason why a trustee could not make an early payment of the principal amount of the tax claim, or at least part of it, if amounts are reserved for payment of anticipated wage claims and administration expenses, and such payment would stop further accrual of interest. In any event, the trustee has not shown that payment to mortgagees where the trustee has possession of the property generally are made more quickly than for a tax lien, the amount and validity of which usually are readily determinable.⁷

E. We submit that *In re Young*, 171 F. Supp. 317 (W.D. Wis.), was wrongly decided, and that the

⁷ It does not follow, as urged by the trustee (pp. 22-23), that to allow post-bankruptcy interest on a tax lien would require the payment to all non-governmental statutory lienors whose liens are not invalidated by Section 67c(2). The statutes creating many of these liens contain different provisions from the Internal Revenue Code, and some of these other statutes do not contain any express provision by which the lien includes interest. See 19 West's Annotated California Codes (1955 ed.), Code of Civil Procedure, Section 1185.1, relating to liens of mechanics and others upon real property. The California courts have held that, under the statute, where the amount of the lien cannot be determined until adjudication by a court, interest can be allowed only from the date of the

trustee errs in relying upon it (pp. 14-16). In particular, there is no warrant to the trustee's reliance (p. 14) upon language in *Young* (p. 321), that the United States should not be entitled to post-bankruptcy interest in the absence of an explicit Congressional direction. In the first place, as we have shown, *New York v. Saper*, 336 U.S. 328, did not involve lien claims. Second, the rules governing the payment of such interest have never been contained in the bankruptcy statutes either of England or of this country. Cf. *New York v. Saper, supra*. Third, there has not been any need for Congress to make any clarifying changes in the statute to permit the United States to obtain post-bankruptcy interest, since there have not been any Supreme Court or Court of Appeals decisions since *Saper* dealing with tax lien claims.

Nor is there any justification upon the trustee's reliance (p. 15) upon an analogy made in *Young* (pp. 322-323) between a tax lien and a judgment lien. Although Section 63a(1) of the Bankruptcy Act (11 U.S.C. 1952 ed., Sec. 103) places limitations upon the payment of interest on judgment claims, no similar limitation was included in Section 63 or any other

judgment. *Cox v. McLaughlin*, 76 Cal. 60, 67-72, 18 Pac. 100, 103-105; *Macomber v. Bigelow*, 126 Cal. 9, 14-15, 58 Pac. 312, 314; *Burnett v. Glas*, 154 Cal. 249, 259-260, 97 Pac. 423, 427; *Perry v. Magneson*, 207 Cal. 617, 622-623, 279 Pac. 650, 652. Cf. *Meda v. Lawton*, 217 Cal. 282, 285-286, 18 P. 2d 665, 667. Under the circumstances, it may well be said that the right of these lienholders to interest is dependent upon their obtaining a judgment. Accordingly, it would appear that their right to post-bankruptcy interest would fall within the express exception of Section 63a(1) of the Bankruptcy Act (11 U.S.C. 1952 ed., Sec. 103).

provision relating to the extent of payment of a federal tax lien.

Additionally, although a tax assessment may have some effects of a judgment, there is no direct analogy between the two. A tax lien possesses many attributes which a judgment lien does not have. The force and effect of a judgment lien depend upon state law; and in some jurisdictions a judgment lien covers only real property, whereas a tax lien, regardless of state law, covers both real and personal property. A judgment lien may require possession to become effective, whereas a tax lien becomes effective without possession. Also, regardless of whether a judgment lien is considered general or specific, a tax lien has been held to be as binding upon property as a consensual lien.⁸

⁸ The trustee's reliance (p. 16) upon *In re Mighell*, 168 F. Supp. 811 (Kans.), currently on appeal by the United States to the Tenth Circuit (No. 6151), also is misplaced. In *Mighell* the assets of the bankrupt subject to the Federal tax liens were not sufficient to cover both the principal amount of the taxes and interest to the date of payment. Accordingly, in that case the United States was not relying upon the same ground for the recovery of such interest which it does in the present case.

The trustee also errs in relying (p. 20) upon *Sword Line v. Industrial Commissioner of State of N.Y.*, 212 F. 2d 865 (C.A. 2d), certiorari denied, 348 U.S. 830, for the proposition that the "discretionary control of a court over interest not based on a contract is traditional." As the trustee recognizes (p. 20, fn. 11), that case involved non-liened claims.

Finally, it does not appear that the decision of *Dayton v. Pueblo County*, 241 U.S. 588, cited in *Saper, supra*, p. 336, and by the trustee (pp. 21-22), is applicable to the present case. In *Dayton v. Pueblo County*, the holders of tax certificates who paid taxes on property of the bankrupt purchased at tax sales, which sales were declared invalid, were entitled to reimbursement for the amounts of the tax paid by them plus interest on such amount at the ordinary legal rate. The

F. The trustee's contention (pp. 22-23), that the policy consideration of protecting the public revenues is not applicable to tax liens, overlooks the fact that in *Saper* such a policy was held to have been modified by Congress only with respect to unsecured tax claims. However, we submit that no conflict exists between the Internal Revenue Code and the Bankruptcy Act with respect to interest payments to be made to secured creditors in bankruptcy. It is clear that the amendments enacted by Congress to the Bankruptcy Act do not impinge upon the extent to which tax liens may obtain interest payments.

G. With respect to the trustee's contention (pp. 23-24), that to permit the United States to obtain post-bankruptcy interest might adversely affect unsecured creditors, as the United States has shown (Br. 46-53), the question as to what are conceived to be the equities appropriate for unsecured creditors is a matter of policy to be resolved by Congress. The history of the bankruptcy acts shows that Congress has not intended all creditors to be treated equally. Secured creditors have always received priority at the expense of the unsecured creditors. Indeed, this is a rule developed in equity in adjustment of the respective claims of secured and unsecured creditors. *Ticonic Bank v.*

Supreme Court held that since under Section 64a of the Bankruptcy Act the bankruptcy court could order the trustee to pay all taxes legally owing by the bankrupt it was proper to reimburse the certificate holders who had paid the taxes, and that the certificate holders could obtain interest upon equitable principles. Accordingly, there is no basis for the trustee's contention (pp. 21-22), that if the Supreme Court in *Saper* had recognized the right of tax liens to post-bankruptcy interest it would have distinguished *Dayton* on this ground.

Sprague, 303 U.S. 406, 411-431; *In re Knox-Powell-Stockton Co.*, 100 F. 2d 979 (C.A. 9th). Where the United States has only an unsecured claim it would be seeking an amount out of the general assets of the bankrupt estate. But where the United States is asserting a lien claim it is not attempting to share in the general assets of the bankrupt estate.

CONCLUSION

The order of the District Court should be reversed, and the secured claims of the United States in the amount of \$2,453.64 for interest should be allowed in full.

Respectfully submitted,

HOWARD A. HEFFRON,
Acting Assistant Attorney General.

LEE A. JACKSON,
I. HENRY KUTZ,
KARL SCHMEIDLER,
Attorneys,

Department of Justice, Washington 25, D.C.

LAUGHLIN E. WATERS,
United States Attorney.

EDWARD R. McHALE,
ROBERT H. WYSHAK,
Assistant United States Attorneys.

JULY 1959.

No. 16,349 /

IN THE

**United States Court of Appeals
For the Ninth Circuit**

MARY C. HUDSON, as Administratrix of
the Estate of Herbert A. Hudson,
Deceased,

Appellant,

VS.

TRANSOCEAN AIR LINES, a Corporation,
and SLICK AIRWAYS, INC., a Corpora-
tion,

Appellees.

BRIEF FOR APPELLANT.

JOHN KRAMER,

SHERIDAN DOWNEY, JR.,

1212 Broadway, Oakland 12, California,

Proctors for Appellant.

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No. 16,349

IN THE

**United States Court of Appeals
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MARY C. HUDSON, as Administratrix of
the Estate of Herbert A. Hudson,
Deceased,

Appellant,

VS.

TRANSOCEAN AIR LINES, a Corporation,
and SLICK AIRWAYS, INC., a Corpora-
tion,

Appellees.

BRIEF FOR APPELLANT.

The appeal is by the libelant Mary C. Hudson, as Administratrix, from an adverse decree in a suit in admiralty to recover damages for wrongful death occurring on or over the high seas.

STATEMENT OF JURISDICTION.

Paragraphs VII, VIII and IX of the libel in the court below alleged that the death of libelant's intestate and husband, Herbert A. Hudson, was caused by the wrongful act or neglect of respondent, Transocean

Air Lines, occurring on the high seas between Guam and the continental United States, and more than a marine league from shore. T. 5-6. The Death on the High Seas Act (41 Stat. 537, 46 U.S.C. Sec. 761-767) and Sec. 1333 of Title 28 U.S.C. therefore sustain the jurisdiction of the District Court.

The final decree of the District Court granting respondent's motion for summary judgment was entered December 18, 1958. T. 41-42. Notice of appeal from such decree and order to this court was filed January 8, 1959. T. 43. Accordingly, the appeal was timely. 28 U.S.C. 2107. Jurisdiction of this court to review the final decree of the District Court is sustained by 28 U.S.C., Sec. 1291, 1294.

STATEMENT OF THE CASE.

The libel alleges that decedent Hudson was killed on July 12, 1953, while employed as a co-pilot by respondent on a plane which crashed while en route from Guam to the United States. T. 5.

The libel further alleges that the plane crashed because of the neglect of respondent, T. 5-6, and that such neglect was the proximate cause of the death of Hudson. T. 6.

The libel then asserts that Administratrix, Mary C. Hudson, and her children, as the heirs at law of Hudson, sustained certain pecuniary damage and are entitled to recover the same against respondent. T. 6-7.

Respondent's answer admits the happening of the crash, denies any neglect or wrongful act, and asserts certain special defenses. T. 9-17. Among the special defenses is the allegation that following the accident the heirs of Hudson applied for and received compensation under the laws of the State of California and are, accordingly, barred by such application and award. T. 13-14.

Respondent and appellant further entered into a certain stipulation of facts (T. 18-23), agreeing that prior to his death Hudson was a member of the Air Carrier Pilots Association International, and agreeing that a contract between such association and respondent was executed in 1952 providing for certain compensation benefits under California law, and that such agreement was in effect at the time of the death of Hudson (T. 19-20). The stipulation of fact further concedes the receipt of such compensation by the heirs at law (T. 22).

Following the filing of the stipulation of fact, and on October 17, 1958, respondents filed motion for summary judgment (T. 38-39). On December 18, 1958 the District Court granted such motion and entered final decree against appellant (T. 41-42).

The District Court filed no opinion and cited no authorities in connection with its order, simply stating in the order that "recovery by libelant in this action is barred by reason of the California Workmen's Compensation Act. . . ."

SPECIFICATION OF ERRORS.

1. The District Court erred in granting the motion of respondent for summary judgment.
 2. The District Court erred in decreeing that libelant take nothing and that respondent take judgment against libelant.
 3. The District Court erred in holding that libelant's action is barred by the California Workmen's Compensation Act.
 4. The final decree is against law.
-

ARGUMENT.

1. **THE AWARD OF BENEFITS BY THE CALIFORNIA INDUSTRIAL ACCIDENT COMMISSION AND THE ACCEPTANCE OF SUCH BENEFITS BY LIBELANT DO NOT CONSTITUTE A BAR TO THIS ACTION.**

The respondent did not, in its motion, specify any reliance upon the doctrine of election of remedy, nor estoppel, and the District Court in granting the motion made no mention of the acceptance of the California compensation benefits as being a basis for its ruling. Libelant assumes that the holding of the District Court was based upon the court's opinion that the State Compensation Act was the exclusive remedy, and that whether or not benefits were accepted is immaterial. Nevertheless, libelant desires to call this court's attention to the fact that previous decisions of the federal courts, including a decision by this court, have universally held that prior application for state benefits is not a fact to be considered in de-

termining whether state or federal law controls. For example, see *Western Boat Bldg. Co. v. O'Leary*, 198 Fed. 2d 409 (9th Cir. 1952), and *Newport News Shipbuilding & Dry Dock Co. v. O'Hearne*, 192 Fed. 2d 968 (4th Cir. 1951).

2. **THE SUMMARY JUDGMENT FOR RESPONDENT SHOULD BE REVERSED FOR THE REASON THAT THE FEDERAL DEATH ON THE HIGH SEAS ACT CONSTITUTES THE SOLE AND EXCLUSIVE REMEDY APPLICABLE TO THE FACTS OF THIS CASE.** Specification of Errors Nos. 1, 2, 3, 4.

The Death on the High Seas Act was enacted in 1920. 41 Stat. 537, 46 U.S.C., Sec. 761-767. Sections 1 and 2 of the Act (41 Stat. 537, U.S.C., Sec. 761, 762) provide:

“Sec. 1. Whenever the death of a person shall be caused by wrongful act, neglect, or default occurring on the high seas beyond a marine league from the shore of any State, or the District of Columbia, or the Territories or dependencies of the United States, the personal representative of the decedent may maintain a suit for damages in the district courts of the United States, in admiralty, for the exclusive benefit of the decedent's wife, husband, parent, child, or dependent relative against the vessel, person, or corporation which would have been liable if death had not ensued.” (46 U.S.C., Sec. 761.)

“Sec. 2. The recovery in such suit shall be a fair and just compensation for the pecuniary loss sustained by the persons for whose benefit the suit is brought and shall be apportioned among them by the court in proportion to the loss they

may severally have suffered by reason of the death of the person by whose representative the suit is brought." (46 U.S.C., Sec. 762.)

It is clear that the act applies to airplane accidents as well as to shipboard accidents. Earlier decisions in the district courts so held. *Noel v. Linea Aeropostal Venezolana*, 154 F. Supp. 162; *Wilson v. Transocean Airlines*, 121 F. Supp. 85. The rule followed in these cases has now been approved in this circuit in *Trihey v. Transocean Air Lines, Inc.*, 255 Fed. 2d 824. In *D'Aleman v. Pan American World Airways*, 259 Fed. 2d 493, the second circuit has recently emphatically held that the act applies to airplanes just as to ships. In so holding, the court stated:

"The facts of the case now before the court make a direct ruling on the question appropriate. To give to passengers on ships protection of the Act and deny similar rights to passengers in the air (496) would amount to unjustifiable and highly technical determination.

(1) We, therefore, now hold that the Death on the High Seas Act grants a right of action in admiralty for death caused by wrongful act, neglect or default occurring in the air space over the high seas and that the trial court properly heard the case in admiralty."

Assuming, as we must, that the District Court, in dismissing this case, was conversant with the *Trihey* decision (*supra*), it appears that its holding would make a clear distinction between passengers and employees. The existence of a compensation act in the

particular state where the employee lived would apparently be of paramount importance in the view of the District Court.

If there are 50 different compensation laws in each of our states, then apparently the District Court would hold these laws controlling in any given airplane accident on or over the high seas. It further appears that this reasoning would not be applied as to state death acts where a passenger is concerned. This appeal has been brought because appellant believes this sort of ruling and reasoning cannot be justified under any previous decisions of the Supreme Court or the various U. S. Courts of Appeal.

In *King v. Pan-American World Airways*, 166 Fed. Supp. 136, the District Court, speaking through Judge Goodman, makes precisely the same ruling as the court in this case. May we take the liberty of quoting from Judge Goodman's earlier decision in *Wilson v. Transocean Air Lines* (supra), wherein it was held that the Act applied to an airplane passenger:

"It is clear that the scope of the Death on the High Seas Act, within the geographical area of its operation, was intended to be as broad as the traditional tort jurisdiction of admiralty. As has been noted, the purpose of the Act was to afford a uniform right of action for death resulting from wrongful acts within the admiralty jurisdiction, excepting state territorial waters. The extent of the right of action given by the Act is not defined in terms of the nature of the wrongful act causing death, but solely in terms of the *locale of the act*."

In the *Wilson* decision Judge Goodman further makes an exhaustive outline of the historical and congressional facts and proceedings leading to the passage of the Act in 1920. Again and again this decision points out the exclusive nature of admiralty jurisdiction and the basic reason for the creation of admiralty law, to wit, the establishment of a uniform system of laws in any locale embraced within the scope of admiralty jurisdiction.

In the *King* case (*supra*) these fundamental rules are somehow by-passed. As we understand the court's reasoning, it is held that airplane employees over the high seas should be classified in the same manner as certain waterfront employees whose duties bear only a questionable or tenuous relationship to navigation and commerce.

In support of its position, the District Court cites some five decisions, four by the Supreme Court, and one by this court. They are as follows: *Alaska Packers v. Industrial Accident Commission*, 294 U.S. 532, 79 L.Ed. 1044; *Grant-Smith-Porter Co. v. Rohde*, 257 U.S. 469, 66 L.Ed. 321; *Miller's Indemnity Underwriters v. Braud*, 270 U.S. 59, 70 L.Ed. 470; *Alaska Packers Assn. v. Industrial Accident Commission*, 276 U.S. 467, 72 L.Ed. 656, and *Alaska Packers Assn. v. Marshall*, 95 Fed. 2d 279.

A brief review of the facts of these five cases clearly shows that they were all concerned with accidents occurring to employees engaged in typical ship-shore employment. They were cases coming within what

the Supreme Court has called "the twilight zone". See *Davis v. Department of Labor and Industries*, 1942, 317 U.S. 249, 87 L.Ed. 246.

Indeed, in the *Marshall* case (supra), which was the only one of the cases actually concerned with an accident in open water, this court said:

"Here is no commercial vessel sailing on the high seas carrying freight or passengers, or both, from port to port, where if local law applied, the relationship of seamen to owner would vary, maybe half a dozen times in the course of a voyage."

In the *Rohde* case (supra) an employee was injured while working on a partially completed vessel standing in a shipbuilding plant. The Supreme Court said:

"Neither Rohde's general employment, nor his activities at the time had any direct relation to navigation or commerce. . . . The general doctrine that, in contract matters, admiralty jurisdiction depends upon the nature of the transaction, and any tort matters upon the locality, has been so frequently asserted by this court that it must now be treated as settled."

In the *Braud* case (supra), a diver sawing timbers on an abandoned set of ways once used for launching ships in the Sabine River was killed. The Supreme Court said:

"We said that the cause was controlled by the principle that, as to certain local matters, regulation of which would work no material prejudice to the general maritime law, the rules of the latter may be modified or supplemented by state statutes."

But, then, referring to other cases concerned with ship-shore accidents (*Great Lakes Dredge & Dock Co. v. Kierejewski*, 261 U.S. 479, 67 L.Ed. 756; *Washington v. W. C. Dawson & Co.*, 264 U.S. 219, 68 L.Ed. 646; *Gonsalves v. Morse Dry Dock*, 266 U.S. 171, 69 L.Ed. 228; *Robbins Dry Dock v. Dahl*, 266 U.S. 449, 69 L.Ed. 372) bearing a little closer relationship to navigation and commerce, the court said:

“We had occasion to consider matters which were not of more local concern because of their special relation to commerce and navigation and held them beyond the regulatory power of the state.”

In the *Alaska Packers v. Industrial Accident Commission* case of 1928, 276 U.S. 467, 72 L.Ed. 656, the Supreme Court, in applying the California Compensation Act, said:

“When injured certainly he was not engaged in any work so directly connected with navigation and commerce that to permit the rights of the parties to be controlled by the local law would interfere with the essential uniformity of the general maritime law. The work was really local in character.”

(In that case a cannery worker was injured while standing on shore attempting to shove a boat into the water, intending to take it to a nearby dock for winter storage.)

A comprehensive and more recent summary of the Supreme Court decisions relating to “twilight zone” workers may be found in the previously cited decision of *Western Boat Bldg. Co. v. O’Leary*. Certainly

great difficulty exists in establishing jurisdiction in many of these types of accidents, there being no precise measure as to locale or type of work. On the other hand, in this action the Death on the High Seas Act has prescribed an exact measure, to wit:

“ . . . beyond a marine league from the shore of any state, or the District of Columbia, or the territories or dependencies of the United States. . . . ”

If we are to take into account, as the District Court apparently feels we should, the nature of Hudson's duties, then what more direct connection to navigation and commerce can there be than the actual piloting of the airship over the high seas?

Here a plain and apparently all-inclusive federal law has set forth a specific remedy for death occurring because of negligence on the high seas. This court and other federal courts have held that airplane crashes are to be considered as coming within the meaning of the act. No other federal legislation appears to provide a different or alternative remedy.

It will be seen that historically the Supreme Court has jealously guarded the exclusive control of all admiralty matters by federal laws and federal courts. Even in the so-called “twilight zone” cases, cited above, involving waterfront accidents, the court has twice declared unconstitutional acts of Congress attempting to place jurisdiction under control of state compensation laws. See *Knickerbocker Ice Co. v. Stewart*, 253 U.S. 149, 64 L.Ed. 834 (1920), and *Washington v. Dawson & Co.*, 264 U.S. 219, 68 L.Ed. 646 (1924).

Appellant feels that this case presents an even more obvious situation where state laws cannot be constitutionally applied. Not only are the facts clearly concerned with the subject matter of admiralty, commerce and navigation, but here we have a specific law of the United States exactly defining the scope of its application. Recent decisions of the Supreme Court relating to litigation under the Federal Employers' Liability Act (45 U.S.C.A. 51, et seq.) and the Jones Act (46 U.S.C.A. 688, et seq.) demonstrate that federal jurisdiction will be applied even in close or borderline cases. See *Reed v. Penn. Ry. Co.*, 76 S.Ct. 958, 351 U.S. 502, 100 L.Ed. 1366; *Southern Pac. Co. v. Gileo*, 76 S.Ct. 952, 351 U.S. 493, 100 L.Ed. 1357; *Senko v. LaCrosse Dredging Co.*, 352 U.S. 370, 1 L.Ed. 2d 404, 77 S.Ct. 415.

CONCLUSION.

Appellant therefore respectfully submits that the summary judgment in favor of respondent should be reversed and the District Court directed to hear and determine this suit in admiralty.

Dated, Oakland, California,
May 12, 1959.

JOHN KRAMER,
SHERIDAN DOWNEY, JR.,
Proctors for Appellant.



No. 16,349

In the

United States Court of Appeals

For the Ninth Circuit

MARY C. HUDSON, as Administratrix of the
Estate of HERBERT A. HUDSON, Deceased,
Appellant,

VS.

TRANSOCEAN AIR LINES, a Corporation.
Appellee.

Brief for Appellee

STEINHART, GOLDBERG, FEIGENBAUM & LADAR

JOHN J. GOLDBERG

NEIL E. FALCONER

111 Sutter Street

San Francisco 4, California

Proctors for Appellee

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Appellee.

Brief for Appellee

Preliminary Statement

The instant appeal is by Libelant from the decree of the Court below, granting the motion of Respondent Transocean Air Lines, Inc., (hereinafter referred to as "Transocean") for summary judgment.

The motion was made upon the ground that the pleadings and a Stipulation of Facts filed by the parties demonstrated that upon the basis of undisputed facts Transocean was entitled to judgment as a matter of law (Tr. 38-41).

The basic allegations of the pleadings are as follows: The instant action was commenced by Mary C. Hudson, Administratrix of the Estate of Herbert A. Hudson, Deceased, in the United States District Court and was sought to be founded upon the Death on the High Seas Act (Libel, Paragraph X, Tr. 6). The Libel (in Paragraph VII) alleged that on July 12, 1953, decedent Herbert A. Hudson was employed by Respondent Transocean aboard a certain airplane owned and operated by Transocean and while said airplane was in flight between Guam and the United States "and while said Herbert A. Hudson was *within the course and scope of his employment* with Respondent Transocean * * *" (emphasis added), the plane crashed upon the high seas, killing the decedent (Tr. 5). The Libel then generally alleged negligence on the part of Transocean (and others) and sought damages for and on behalf of Mary C. Hudson, Christine Anne Hudson and Lori Lee Hudson, as the decedent's surviving widow and children (Libel, Paragraphs XVI and XVII, Tr. 8).

Transocean's Answer to the Libel, after denying negligence, set up, among others, the following two affirmative defenses:

(1) that the death of decedent Hudson was an industrial accident subject to and governed by the provisions of the California Workmen's Compensation Act, that the remedy afforded by said Act provided the sole and exclusive remedy against the employer, Transocean, and barred the action (Answer of Transocean, Paragraph XV, Tr. 12); and

(2) that Libelant, following the death of decedent Hudson, had filed an application with the Industrial Accident Commission of the State of California for death benefits under the California Workmen's Compensation Act, and had secured an award against Transocean under that Act, which award was thereafter, upon petition of Libelant, com-

muted and paid to Libelant in a lump sum; that by reason of said facts, the action was barred (Answer, Paragraphs XVI-XVIII, Tr. 13-14).

The basic facts upon which Appellee's motion for summary judgment was made and granted are undisputed, and are set forth in the Stipulation of Facts (Tr. 18-34). That Stipulation shows the following: Transocean was and is a California corporation, with its principal headquarters at Oakland, California. At all times relevant decedent Hudson was a resident of the State of California (Tr. 18). Decedent Hudson was first employed by Transocean in 1950 in Oakland, California, and thereafter, save for intermittent furloughs, was employed as pilot or co-pilot on airplanes operated by Transocean flying out of Oakland, California (Tr. 18-19). At and prior to the time of Hudson's death a Collective Bargaining Agreement was in effect between Transocean and the Air Carrier Pilots Association (Non-Scheduled) International, Section 11 of which provided in part as follows:

*“(a) It is agreed that the provisions of the California State Compensation Law shall be applicable to all pilots and co-pilots covered by this Agreement provided that if the Longshoremen's and Harbor Worker's Act or any compensation law is found to be applicable, such law shall apply in lieu thereof * * *”* (Tr. 19-20, emphasis added.)

Transocean had “secured” the compensation rights of its employees under the California Workmen's Compensation Act by a policy of workmen's compensation insurance which was in full force and effect at the time of the death of the decedent Hudson (Tr. 20). Following Hudson's death in the crash of a DC-6 (a land-based airplane) over the Pacific, Libelant, represented by independent counsel, filed an application for death benefits with the Industrial Accident Com-

mission of California and, after a hearing before said Commission, secured an award on December 29, 1953. This award was thereafter, on Libelant's application, paid to Libelant in a lump sum on or about May 18, 1955 (Tr. 21-22).

The instant action was then filed, less than two months thereafter, on July 7, 1955.

The Relevant Statutes

The relevant statutes are as follows:

(1) The Death on the High Seas Act (March 30, 1920, c. 111, Sections 1-7, 41 Stat. 537, 46 U.S.C.A. Sections 761-767):

Section 1:

“Whenever the death of a person shall be caused by wrongful act, neglect, or default occurring on the high seas beyond a marine league from the shore of any State, or the District of Columbia, or the Territories or dependencies of the United States, the personal representative of the decedent may maintain a suit for damages in the district courts of the United States, in admiralty, for the exclusive benefit of the decedent's wife, husband, parent, child, or dependent relative against the vessel, person, or corporation which would have been liable if death had not ensued.”

* * * * *

Section 7:

“The provisions of any State statute giving or regulating rights of action or remedies for death shall not be affected by this chapter. Nor shall this chapter apply to the Great Lakes or to any waters within the territorial limits of any State, or to any navigable waters in the Panama Canal Zone.”

(2) The California Workmen's Compensation Act (cited as Sections in the California Labor Code):

Section 3600:

“Liability for the compensation provided by this division, in lieu of any other liability whatsoever to any person except as provided in section 3706, shall, without regard to negligence, exist against an employer for any injury sustained by his employees arising out of and in the course of the employment and for the death of any employee if the injury proximately causes death, in those cases where the following conditions of compensation concur: * * *”

Section 3601:

“Where the conditions of compensation exist, the right to recover such compensation, pursuant to the provisions of this division is, except as provided in section 3706, the exclusive remedy against the employer for the injury or death.”

Section 3706:

“If any employer fails to secure the payment of compensation, any injured employee or his dependents may proceed against such employer by filing an application for compensation with the commission, and, in addition, may bring an action at law against such employer for damages, as if this division did not apply.”

Section 5305:

“The commission has jurisdiction over all controversies arising out of injuries suffered without the territorial limits of this State in those cases where the injured employee is a resident of this State at the time of the injury and the contract of hire was made in this State. Any such employee or his dependents shall be entitled to the compensation or death benefits provided by this division.”

The Issues in This Case

In this case the issues are:

(1) In the case of the death of an airline employee

killed in the course of his employment in the crash of an airliner on the high seas, do the provisions of the California Workmen's Compensation Act preclude an action for wrongful death against the employer under the Federal Death on the High Seas Act?

(2) In view of the language of the Death on the High Seas Act, may a claim be asserted under that Act against an airline employer for the death of an airline employee, where the employer would *not* have been liable "if death had not ensued"?

(3) Is the present action barred by the doctrine of election of remedies?

The Nature of Appellant's Contention: In Essence, It Is That Application of the California Workmen's Compensation Act to the Death of an Airline Employee Killed in the Course of His Employment During a Flight Over the Ocean Is Unconstitutional.

The argument of Appellant's Opening Brief can be summarized as follows: Certain passenger cases have held that the Death on the High Seas Act applies to death claims arising from accidents occurring during airline flights on or over oceans. In view of such rulings, the application of the California State Workmen's Compensation Act to such an accident (even though such application was originally made at Libellant's own instance and request) violates the United States Constitution.

Appellant concedes (at page 7 of her Opening Brief) that precisely the same issue was determined, adversely to Appellant, in *King v. Pan American World Airways*, 1958, 166 Fed. Supp. 136, in an opinion by District Judge Goodman, but argues that the *King* case was incorrectly decided, and spends most of her Brief seeking to distinguish the authorities therein relied on.

We agree that the very issue posed here was decided in the *King* case, after full consideration of the same kinds

of arguments made here by Appellant. In his opinion, Judge Goodman considered two questions: (1) was there a Constitutional bar to the application of the California Workmen's Compensation Act?, and (2) was there a statutory bar?, and held both questions must be answered in the negative. We consider Judge Goodman's opinion so well-reasoned and persuasive that we have set it out in Appendix A to this Brief.

In this Brief we propose: (1) to demonstrate that the airplane cases cited by Appellant are not in point; (2) to set forth the terms of the California Workmen's Compensation Act and the general rules of law governing rights and remedies of airline employees against their employers for industrial injuries (including death); (3) to demonstrate that to apply, consistent with those general rules of law, the California Workmen's Compensation Act to airline industrial injuries while in flight over the ocean violates neither (a) the United States Constitution nor (b) the Federal Death on the High Seas Act; (4) to show that on any theory the Death on the High Seas Act is inapplicable in this case to Transocean since it is applicable only as to persons "which would have been liable if death had not ensued", and Transocean would not have been liable to Herbert Hudson if death had not ensued; (5) to show that even if it be assumed that initially Appellant might claim under the Death on the High Seas Act as well as the California Workmen's Compensation Act, her claim in this case is barred by the doctrine of election of remedies.

Appellant's Authorities Dealing With Airplane Crashes Are Neither Legally nor Factually in Point

Appellant cites (at page 6 of her Opening Brief) some four cases for the proposition that "It is clear that the act [the Death on the High Seas Act] applies to airplane acci-

dents as well as to shipboard accidents". These are *Trihey v. Transocean Air Lines, Inc.*, 1957, C.A. 9, 255 Fed. 2d 824; *D'Aleman v. Pan American World Airways*, 1958, C.A. 2, 259 Fed. 2d 493; *Noel v. Linea Aeropostal Venezolana*, 1956, U.S.D.C., S.D.N.Y., 154 Fed. Supp. 162; and *Wilson v. Transocean*, 1954, U.S.D.C., N.D. Cal., 121 Fed. Supp. 85. None of these cases, however, is factually or legally in point as to the issues in this case.

The *Trihey* case was a *passenger* case brought under the Death on the High Seas Act. The trial court heard the evidence, found no negligence had been shown, and decided in favor of the defendant. The question on appeal was whether this finding was permissible under the evidence; the Court of Appeals held it was, and affirmed.

The *D'Aleman* case again was a *passenger* case, in which the complaint alleged the decedent had been so frightened by an incident that occurred in flight over the ocean that several days later, after reaching land, he died. The complaint had two counts, the first under the Death on the High Seas Act, and the second under the Virginia wrongful death act. On the first count, the trial court itself heard the case, found no negligence had been shown, and decided in favor of the defendant. The second count was tried to a jury, which likewise decided in favor of defendant. On appeal, the sole question as to the first count was whether it should have been tried to a jury, instead of to the court in admiralty. The appeal as to the second count concerned only alleged erroneous rulings on the admissibility of evidence. The Court of Appeals affirmed as to both counts, holding that the first count had properly been tried in admiralty to the court on the theory that the Death on the High Seas Act governed occurrences during flight over the ocean, as well as upon the ocean, and that actions thereunder must be brought in admiralty.

The *Noel* case was a *passenger* case, arising out of a fatal airplane crash in the Atlantic Ocean. The plaintiffs originally had filed an action based on the Death on the High Seas Act on the “law side” of the Federal Court; the court had dismissed this action, holding that any claim founded on such Act must (under the words of the statute) be brought on the admiralty side of the court. Plaintiffs then filed an amended complaint alleging the accident occurred in the air, and argued this allegation alleged a claim under the Warsaw Convention which might be brought on the “law side”. In 154 Fed. Supp. 162, the District Court again granted a motion to dismiss, holding that the allegation of “such an elusive fact as whether a person died above, on, or in the sea” did not constitute a sufficient difference to depart from its prior ruling.

The *Wilson* case was a *passenger* case. That case held: (1) that the Federal Death on the High Seas Act superseded State wrongful death actions, and (2) that an action brought under the Federal Death on the High Seas Act must—under its terms—be brought on the admiralty side of the court.

Thus, none of these cases were *crew* cases; none of them involved the question of the effect of a State Workmen’s Compensation Act; and nothing was said in any of them, even by dictum, concerning this question. Only one of them, the *Wilson* case, even involved in any way a State-Federal situation, namely, the effect of a State *wrongful death act*; the distinction between that situation and the instant case is clearly pointed out by the very author of the *Wilson* opinion, Judge Goodman, in his opinion in the *King* case (see Appendix A) and is discussed at pages 39-41 of this Brief.

Although Appellant chose not to cite it in her Opening Brief, we anticipate that Appellant will cite in closing the

case of *Fernandez v. Linea Aeropostal Venezolana*, U.S.D.C., S.D.N.Y., 1957, 156 Fed. Supp. 94 as a case holding that a claim for the death of an airline crew member may be asserted under the Death on the High Seas Act.

The *Fernandez* opinion was a ruling on a preliminary motion to dismiss. The case involved a claim under the Death on the High Seas Act for the death of a stewardess in an airplane crash at sea, and the court denied a motion to dismiss; at first glance, therefore, the case seems factually in point. The case is legally not in point at all, however, since it in no way dealt with or even considered the question whether such a remedy, if otherwise applicable, would be barred by a workmen's compensation statute. The only issue before the court was instead the completely different question, presented on a preliminary motion, whether the United States Death on the High Seas Act applied in the case of a *foreign* airplane, with a *foreign* owner and crew, where the accident occurred outside the United States. (It is to be noted that the defendant was a Venezuelan airline, Linea Aeropostal Venezolana, and presumably so was the crew; the deceased stewardess in question was named Elvia V. Varela and her personal representatives were named Fernandez and Varela.) The District Judge held the United States Act *did* apply (a rather doubtful result in view of *Lauritzen v. Larsen*, 1953, 345 U.S. 571, 97 L.Ed 1254). Quite possibly the reason the effect of a workmen's compensation act remedy was neither posed nor considered is that Venezuela has no such act applicable with respect to such accidents.

Thus, none of the airplane cases cited by Appellant deal with the effect of a workmen's compensation act in a crew case and they are relevant only for the general proposition that in the case of an airline crash while in flight over the ocean *passenger* claims may be brought under the Federal

Death on the High Seas Act. (It is perhaps of some significance that application of this Act to airlines, even in passenger cases, is, so to speak, the product of "necessity". It has never seriously been contended that Congress, in enacting that Act (on March 30, 1920) had in mind airplanes or airplane flights over the ocean. The courts, however, have strained to find that Act applicable in such cases due to the well-known difficulties in the way of finding any State wrongful death statute applicable,¹ and the fact that no other Federal wrongful death statute could possibly be construed to apply. The courts have therefore been confronted with the choice of either holding the Death on the High Seas Act applicable, or else holding that, whatever the facts of the particular case, the heirs of a deceased passenger are out of court for lack of any applicable statute whatever.)

The California Workmen's Compensation Act: Its Extraterritorial Jurisdiction and Exclusive Remedy Provisions

The California Workmen's Compensation Act is contained in Sections 3201 through 6002 of the California Labor Code. It applies to all injuries (including death) arising out of an employee's employment (Labor Code Section 3600), both where the injury occurs within the State of California, and also where the injury occurs outside the territorial boundaries of the State of California, if the contract of employment was entered into in California (Labor Code Section 5305).² As the Court is aware, such extraterritorial coverage is common, even customary, in State Workmen's Compensation Acts. Such extraterritorial jurisdiction has been

1. See, for example, *The Middleser*, U.S.D.C., D. Mass. 1916, 253 Fed. 142.

2. Set forth at page 5 of this Brief. (Labor Code Section 3600.5 was not then in effect being first enacted in 1955, subsequent to the date of the instant accident on July 12, 1953.)

uniformly sustained on the basis of a State's legitimate interest in protecting employees regularly employed within the State and their families from the consequences of industrial accidents. *Alaska Packers v. Industrial Accident Commission*, 1935, 294 U.S. 532, 79 L. Ed. 1044.³ As the Court is undoubtedly aware, thousands of American employees (many of whom were hired in California) now work in foreign countries, Arabia, Iran, India, South America and the like, on various construction and oil projects; these, it is understood by all, are protected as to industrial injuries by the applicable State Workmen's Compensation Act (very

3. The language used by the United States Supreme Court in the case of *Cardillo v. Liberty Mutual Insurance Co.*, 1947, 330 U.S. 469, 91 L.Ed. 1028, sustaining application of the extraterritorial jurisdiction provisions of the District of Columbia workmen's compensation act, is very much in point. In rejecting a challenge to these provisions, the Court said:

"We hold that the jurisdictional objection is without merit in light of these facts. Nothing in the history, the purpose or the language of the Act warrants any limitation which would preclude its application to this case * * *

"Nor does any statutory policy suggest itself to justify the proposed exception. A prime purpose of the Act is to provide residents of the District of Columbia with a practical and expeditious remedy for their industrial accidents *and to place on District of Columbia employers a limited and determinate liability*. See *Bradford Electric Light Co. v. Clapper*, 286 US 145, 159, 76 L. Ed. 1026, 1035, 52 S Ct 571, 82 ALR 696. The District is relatively quite small in area; many employers carrying on business in the District assign some employees to do work outside the geographical boundaries, especially in nearby Virginia and Maryland areas. When such employees reside in the District and are injured while performing those outside assignments, they come within the intent and design of the statute to the same extent as those whose work and injuries occur solely within the District. *In other words, the District's legitimate interest in providing adequate workmen's compensation measures for its residents does not turn on the fortuitous circumstance of the place of their work or injury*. Nor does it vary with the amount or percentage of work performed within the District. Rather it depends upon some substantial connection between the District and the particular employee-employer relationship, a connection which is present in this case." (Emphasis added, 330 U.S. at 475-476.)

often that of California) rather than by Arabian or other "local" law.

Under the California Workmen's Compensation Act the employer is required to "secure" its employees' compensation rights by effecting compensation insurance with an insurance carrier (California Labor Code Section 3706).⁴ Where the conditions and requirements of the Workmen's Compensation Act are present, and provided that the employer has complied with Section 3706 as stated above, the remedies against the employer for injury to or death of an employee are, by the express terms of the Act, made exclusive. The statutory language is found in Labor Code Section 3601 which reads as follows:

"Where the conditions of compensation exist, the right to recover such compensation, pursuant to the provisions of this division is, except as provided in Section 3706, the exclusive remedy against the employer for the injury or death."

As is well known, the Legislature, in enacting the California Workmen's Compensation Act, both extended and contracted the rights of employees against their employer. A comprehensive system of compensation for industrial injuries was provided, without any requirement of proof of fault; on the other hand, all "common law" rights of action by the employee against the employer for fault were expressly abrogated. Each of these two features of the Act is vital to it; each complements the other. Save for the single case where the employer, in violation of law, fails to "secure" compensation for its employees by effecting compensation insurance, the employer, in exchange for imposition of the obligation to pay compensation under the Act, is relieved from any other claims or causes of

4. Which Transocean did. See Stipulation of Facts, Paragraph (5) (Tr. 20).

action by or on behalf of the employee. The exclusive remedy provision of the Act is thus a key and integral part of the statutory scheme; to hold that the exclusive remedy feature of the California Workmen's Compensation Act is inapplicable to a given situation is to hold that the Act in its entirety is inapplicable.

The Legal Background of the Law of Airline Industrial Injuries: Congress Has Left the Provision and Regulation of Remedies for Airline Industrial Injuries Wholly to the Respective States. When an Airline Industrial Accident Occurs, the Workmen's Compensation Act of the State of Employment Governs and Controls Over and Against the Wrongful Death Law of the Place of the Accident.

To present the present issue in its proper legal setting, some background concerning the rights and remedies of airline employees against their employers for industrial injuries (including death) is necessary.

There are two fundamental legal propositions of significance here:

(1) There is *no* applicable Federal remedy for industrial injuries of airline employees, either of the Workmen's Compensation or the F.E.L.A. Act kind;

(2) The applicable *State* Workmen's Compensation remedies do apply, and provide and regulate the remedies of airline employees against their employers with respect to industrial injuries.

It is common knowledge that nowadays commercial airliners fly all over the world, and that the typical trip covers a great distance. As for trips within the United States, almost every flight of a modern passenger airliner crosses one or more State boundaries. Hundreds of flights a week likewise take place between the continental United States and Europe, Asia, Africa and South America. These flights

pass over both land and ocean, but are always from a land airport to a land airport (save in the almost vanishing instance of "flying boats").

Due to the interstate and foreign nature of such airplane flights, it is clear, as a theoretical matter, that Congress *could* exercise jurisdiction, under the Constitution, to enact a Federal compensation act applicable to airline employees, comparable to the specific Federal laws enacted as to railroad workers, seamen, longshoremen, and others. It is equally clear, however, as a matter of actual practice, that Congress has seen fit *not* to exercise its potential jurisdiction over airline employees, but has instead left to the States, and solely to the States, the question of the respective rights and remedies of airline employees and their employers for industrial injuries. This is clear, both as a matter of common knowledge and also of authority. Thus, in *Spelar, Administratrix v. American Overseas Air Lines, Inc.*, U.S.D.C., S.D.N.Y., 1947, 80 Fed. Supp. 344, involving a wrongful death action for the death of a flight engineer killed in an airplane crash in Newfoundland, the court said (at page 347):

"* * * no rule of liability or method of compensation has been established by Congress with respect to personal injuries sustained by employees of airplane carriers engaged in interstate or foreign commerce."

In view of the importance of air transportation to our modern life, and the specific recognition given the airline industry by Congress in various respects (such as Congressional investigation into overlapping use of the national air lanes by the military services and civilian airlines, and the application of the Railway Labor Act to labor disputes in the airline industry) the complete and utter silence of Congress upon the subject of airline employer-employee

rights and remedies in respect to industrial injuries, can only be deemed intentional and deliberate.

In approaching the issue in the present case, therefore, we must bear in mind that, with respect to the *typical* industrial airline injury occurring on land, whether within or without the United States, Congress has provided *no* Federal remedy but has intentionally and knowingly left the field to State regulation and State regulation alone.⁵

The second fundamental proposition to observe, in the field of airline industrial injuries, is that the applicable Workmen's Compensation Act has uniformly been held to govern and control, as against the *lex delicti*, the tort law of the place of the injury which would otherwise normally apply. The applicable Workmen's Compensation Act has been held to govern because that is the law with relation to which the parties contracted, and that is the law which affords at once a speedy and certain remedy to the injured worker (or, in the case of death, to his family) and thus protects both the interest of the worker and the State. The cases are uniform to this effect, whether the crash causing the injury occurs within the United States or upon overseas territory.

First, as to crashes within the United States: In *Willingham v. Eastern Air Lines*, C.A. 2, 1952, 199 Fed. (2d) 623, suit was brought in New York for the death of an airplane pilot killed in a crash in Maryland. The widow had claimed and received compensation under the Georgia

5. The fact that Congress has intentionally and knowingly left this area to the States is illustrated by the fact that both in the 84th and 85th Congresses bills were introduced in the House of Representatives, the effect of which would have been to specifically make airline employees subject to the Federal Employers Liability Act and these bills failed even to get out of committee. See H.R. 4831 introduced in the 84th Congress, and H.R. 1044 introduced in the 85th Congress, both by Congressman Zelenko. .

Workmen's Compensation Act. The court held that the Georgia Workmen's Compensation Act applied and that the wrongful death action based upon Maryland law was barred by the exclusive remedy provisions of the Georgia Act.

In *Severson v. Hanford Tri-State Air Line, Inc.*, C.A. 8, 1939, 105 Fed. (2d) 622, the plaintiff was a co-pilot on a commercial airplane flying between Minnesota and Illinois, and was injured in a crash in *Wisconsin*, allegedly due to his employer's negligence. He brought a common law action for damages based on negligence against the employer. The trial court directed a verdict for defendant on the ground that plaintiff's sole remedy was under the *Minnesota* Workmen's Compensation Act, and the Circuit Court of Appeals affirmed, stating:

"It is conceded that plaintiff suffered an accidental injury arising out of and in the course of his employment. The Workmen's Compensation Acts of the various states were enacted for the purpose of requiring industry to bear a part of the burden occasioned by accidental injuries to its employees, when such injuries arose out of and in the course of employment. It is important to determine the location of the industry. If the industry in which plaintiff was employed was in fact located in Minnesota, he was entitled to the protection of the Minnesota Workmen's Compensation Law, even though his injuries were received in another state, if the work he was doing was a part of the industry being carried on in the State of Minnesota, or was incident thereto." (Pages 624-625)

* * * * *

"We think it clear that the plaintiff was employed in a business or industry localized in Minnesota, and hence his right to compensation for injuries received during his employment must be determined exclusively under the Workmen's Compensation Act of that State.

He could not, therefore, maintain a common law action for damages predicated upon negligence. The judgment appealed from is affirmed." (Emphasis added, page 625.)

See also *Duskin v. Pennsylvania Central Air Lines*, C.A. 6, 1948, 167 Fed. (2d) 727.

The same rule applies to injuries or death resulting from crashes occurring in foreign countries. Thus, in *Spelar, Administratrix v. American Overseas Air Lines, Inc.*, U.S.D.C., S.D.N.Y., 1947, 80 Fed. Supp. 344, involving a wrongful death action brought for the death of a flight engineer killed in an airplane crash in Newfoundland, the court held that the New York Compensation Act was applicable, and that the wrongful death action otherwise available under Newfoundland law was barred by the exclusive remedy provisions of the New York Compensation Act. In *Urda v. Pan American Airways*, C.A. 5, 1954, 211 Fed. (2d) 713, a personal injury action was brought by an airline steward for injuries received in a crash in Brazil. The court held that the Florida Workmen's Compensation Act governed, and that that Act barred any actions based on Brazilian law.

It is important to note that these cases sustaining the paramount and controlling nature of the applicable State Workmen's Compensation Act were decided, *not* upon the theory that there was *no* local wrongful death act (that is, local to the place of the crash) or that the local wrongful death statute was for some reason intrinsically defective and invalid, nor even upon the theory that such local statutes would not apply to foreign airplanes merely passing over the local territory. These cases were instead decided upon the basis that where *both* the applicable Workmen's Compensation Act and the local wrongful death act

would otherwise apply, it was the former which governed and controlled, and which afforded the sole and exclusive remedy; that is, the Workmen's Compensation Act excluded the operation of the *otherwise applicable* wrongful death act.⁶

To sum up, then, in stating the legal background for the present case, we believe it is clear beyond dispute that the paramount and exclusive nature of the applicable Workmen's Compensation Act *would* control:

- (1) If the airplane crash had occurred in California;
- (2) If the airplane crash had occurred in any other State of the United States;
- (3) If the airplane crash had occurred in any foreign country.

Under any of the above situations, if an airline employee were injured, he would receive a State Workmen's Compensation remedy, and that only; if he were killed, his family would receive death benefits under the State Workmen's Compensation Act, and those benefits only.

6. The preferred status of workmen's compensation remedies over tort remedies in general is exemplified by the two recent United States Supreme Court decisions of *Feres v. United States*, 1950, 340 U.S. 135, 95 L.Ed. 152, and *Johansen v. United States*, 1952, 343 U.S. 427, 96 L.Ed. 1051. The *Feres* case held that a soldier's sole remedy against the United States for personal injuries lay in the compensation-type remedies available to servicemen, and that resort could not be had to the Federal Tort Claims Act. The *Johansen* case held that the Federal Employees Compensation Act was the exclusive remedy for injuries sustained by a civilian member of the crew of an Army transport and that resort could not be had to the Public Vessels Act for a tort recovery. In each case the result was reached although there was *no* specific "exclusive remedy" provision and the language of the "tort" statute relied upon was general in nature, and literally applicable.

See also to the same effect the recent Court of Appeals (D.C.) case of *Aubrey v. U. S.*, 1958, 254 Fed. (2d) 768, an opinion by Justice Reed, holding that the District of Columbia workmen's compensation act precluded an employee of a Navy officer's open mess from suing the United States under the Federal Tort Claims Act.

The question presented in the District Court in this case was: What was the result if an airline crash occurred—not over land—but over or upon the ocean:—

(1) Did the same law (the applicable State Workmen's Compensation law) govern *which would govern in the case of any other accident*; or

(2) Did an entirely new and different law all of a sudden apply, with entirely different legal rules both as to the determination of liability and of damages?

It was the contention of Transocean that both under the statutory and case law, and as a matter of common sense and practicality, the same law of industrial injuries that would apply to any other airline accident applied to an airline accident occurring on or over the high seas; it was the contention of Appellant (notwithstanding the fact that promptly following the accident she had invoked the jurisdiction of the California Industrial Accident Commission, secured an award, and then taken pains to accelerate its payment in a lump sum) that that law did not apply at all, and instead, purely due to the fortuitous location of the scene of the accident, an entirely new and different law governed.

The District Court rejected this latter contention and held the case governed by the same law governing any other airline industrial injury.

The Same Principle Which Governs Elsewhere, the Paramount Nature and Exclusive Effect of the Workmen's Compensation Remedy, Applies in the Instant Case. The Situation Is Not Changed by the Fact a Federal Remedy Might Exist in the Absence of Any State Compensation Remedy.

In their Opening Brief, Appellant's counsel quote Sections 1 and 2 of the Federal Death on the High Seas Act (46 U.S.C.A. Sections 761-767), cite the cases previously

discussed which sanctioned *passenger* claims arising out of airline crashes at sea to be brought under that Act, and argue Appellant is thereby entitled to prevail.

The issue, however, is *not* whether the Death on the High Seas Act applies to *passengers*, nor even whether it would apply to airline flight personnel in the *absence* of an applicable State Workmen's Compensation Act; the issue instead is whether the Death on the High Seas Act is applicable to industrial injuries or deaths of such personnel which *are* covered by a State Workmen's Compensation Act.

At first blush, the thought comes to mind that the existence of *any* Federal remedy will control and, if necessary, supersede any otherwise applicable State statute, on the theory that this result is compelled by the Supremacy Clause of the Constitution. This, however, is not correct. (We of course concede that a valid Act of Congress which *intends* to supplant State legislation dealing with the same subject does in fact supplant and supersede such State legislation, if such intention is either expressly or impliedly made clear; as will be shown hereafter, however, this is not the situation here.)

This is made clear by a line of cases which the United States Supreme Court decided in the 1920's.

The first of these, *Grant Smith-Porter Ship Co. v. Rohde*, 1922, 257 U.S. 469, 66 L. Ed. 321, dealt with a workman injured while at work on a partially completed ship lying at dock in a river near Portland, Oregon. The Oregon Workmen's Compensation Law (applicable unless specifically waived, which had not been done) purported to apply to shipbuilding. The workman sued the employer for negligence in the Federal Admiralty Court. The Ninth Circuit Court of Appeals certified to the United States Supreme Court two questions: (1) whether the general admiralty jurisdiction of the Federal Court would normally extend to

the accident in question; and (2) whether such admiralty right of action would be abrogated by the State Workmen's Compensation Act. The Supreme Court discussed the facts and then stated:

"Here the parties contracted with reference to the state statute; their rights and liabilities had no direct relation to navigation, and the application of the local law cannot materially affect any rules of the sea whose uniformity is essential * * *

"Construing the first question as meaning to inquire whether the general admiralty jurisdiction extends to a proceeding to recover damages resulting from a tort committed on a vessel in process of construction when lying on navigable waters within a state, *we answer yes.*

"Assuming that the second question presents the inquiry whether, in the circumstances stated, *the exclusive features of the Oregon Workmen's Compensation Act would apply and abrogate the right to recover damages in an admiralty court which otherwise would exist, we also answer, yes.*" (257 U.S. at pages 477-478; emphasis added.)

Millers' Indemnity Underwriters v. Braud, 1926, 270 U.S. 59, 70 L. Ed. 470, dealt with the accidental death of a diver employed by a shipbuilding company, killed while submerged from a floating barge. The State Court sustained a compensation award under the Workmen's Compensation Law of Texas. (Coverage under the Texas Workmen's Compensation Act was compulsory, not elective.) The employers and its compensation carrier appealed, insisting:

"* * * that the claim arose out of a maritime tort; that the rights and obligations of the parties were fixed by the maritime law; and that the State had no power to change these by statute or otherwise." (270 U.S. at 63)

The United States Supreme Court discussed its prior decision in the *Rohde* case and then said:

"In the cause now under consideration the record discloses facts sufficient to show a maritime tort *to which the general admiralty jurisdiction would extend save for the provisions of the state Compensation Act*; but the matter is of mere local concern and its regulation by the state will work no material prejudice to any characteristic feature of the general maritime law. *The act prescribes the only remedy; its exclusive features abrogate the right to resort to the admiralty court which otherwise would exist.*" (270 U.S. at pages 64-65; emphasis added.)

In *Alaska Packers Association v. Industrial Accident Commission*, 1928, 276 U.S. 467, 72 L. Ed. 656, a workman for a fish cannery in Alaska (who had been hired in California) was injured while endeavoring to push into navigable water a stranded fishing boat. An Industrial Accident Commission award was challenged:

"* * * upon the sole ground that when injured he was doing maritime work under a maritime contract and that the rights and liabilities of the parties must be determined by applying the general rules of maritime law, and not otherwise." (276 U.S. at page 469.)

The Court, in reply, said:

"Whether in any possible view the circumstances disclose a cause within the admiralty jurisdiction, we need not stop to determine. *Even if an affirmative answer be assumed*, the petitioner must fail. Peterson was not employed merely to work on the bark or the fishing boat. He also undertook to perform services as directed on land in connection with the canning operations. When injured certainly he was not engaged in any work so directly connected with navigation and commerce that to permit the rights of the parties to be controlled by the local law would interfere with the essential uniformity of the general maritime law." (276 U.S. at page 469; emphasis added.)

See also *Alaska Packers Assn. v. Marshall*, 1938, C.A. 9, 95 Fed. 2d 279, an opinion of this Court, following the above cases, and sustaining a State compensation remedy as applied to an employment with definite maritime aspects.

There are two significant propositions to be drawn from the above cases:

(1) The Court did *not* hold that an admiralty remedy would normally *not* apply to the fact situations existing in these cases; on the contrary, in each case it held that (absent a State Workmen's Compensation Act) the general admiralty jurisdiction *would* apply.

(2) The Court did *not* hold that a rule of absolute uniformity was compulsory within the admiralty jurisdiction, and that variation created by State law was not permissible; on the contrary, it held that State law might apply (and *would* be applied by the court) save where it would (in the words of the court in the *Alaska Packers* case, at page 469) "interfere with the *essential* uniformity of the *general maritime law*." (The same thought was expressed in the *Rohde* case (at page 477) where the court stated that local law could not "*materially* affect any rules of the *sea* whose uniformity is *essential*" and in the *Braud* case (at page 64) that local law was invalid only where it would work "*material* prejudice" to a "*characteristic feature*" of the "*general maritime law*".

We believe these cases furnish a decisive answer to any contention by counsel for Appellant that the existence (in the *absence* of an applicable State Compensation Act) of a Federal remedy immediately and at once acts to exclude and render ineffective a State Compensation Act that is applicable. Such was certainly not the holding of the United States Supreme Court in the cited cases; on the contrary, they held in each case that the *State Compensation Act* was

effective to exclude *the otherwise applicable Federal* remedy.

We believe the instant case falls well within the rule of the above cases.⁷ Actually, as discussed below, the instant case is a much stronger one for the application of a State workmen's compensation act than the cited cases, since the latter concededly involved employments with definite maritime aspects, whereas the airline employment in the instant case was completely non-maritime.

Application of a State Workmen's Compensation Act to the Death of an Airline Employee in an Airplane Crash Over the Ocean Is Not Unconstitutional as in Violation of the Jensen Doctrine.

As noted, the basic contention of Appellant's counsel is that a State workmen's compensation act "cannot be constitutionally applied" (Appellant's Brief, p. 12) to the facts of this case because "exclusive control of all admiralty matters" is reserved to Federal law and Federal courts (Appellant's Brief, page 11). Although Appellant does not choose to cite it by name, it seems apparent that Appellant is seeking to bring this case within the *Jensen* doctrine (*Southern Pacific Co. v. Jensen*, 1917, 244 U.S. 205, 61 L.Ed. 1086).

Since it appears Appellant seeks to rely upon this doctrine, we must discuss it. We wish to make clear at the outset, however, that in our opinion the *Jensen* doctrine is irrelevant and a false issue in this case for one simple but fundamental reason: that doctrine relates to the need for uniformity in certain basic aspects of *maritime* law, and

7. These cases, which have never been overruled or qualified, constitute the simplest and most drastic refutation of the assertion by Libelant's counsel that the Supreme Court has "jealously guarded the exclusive control of all Admiralty matters by Federal laws and Federal courts" (Libelant's Opening Brief, page 11) since the results reached therein were arrived at even though the employments involved admittedly had maritime as well as non-maritime aspects.

peculiarly to the need for uniformity in regulating rights between employers and employees in certain classic *maritime* employments, whereas this case is an *airline* case, dealing with an industrial injury to an employee in a *non-maritime* industry who performed *no maritime* work. If this point be firmly kept in mind in the following discussion, we believe the total inapplicability of the *Jensen* doctrine will be evident.

In citing a series of cases following the *Jensen* case, decided between 1920 and 1928, (and cited at the top of page 10 of Appellant's Opening Brief), which held certain State and Federal statutes unconstitutional *as applied to certain particular fact situations*, Appellant's counsel have slurred over the very basis and rationale of these decisions, namely, that they each dealt with certain historic maritime pursuits.

Certain traditional maritime employments have always been regulated by Admiralty law. The clearest situation, the regulation of the mutual rights and duties of seamen and their employers, is the classic subject of Admiralty law. Another clear situation is the employment of stevedores or longshoremen performing the work of loading or unloading ships, once done (and in some primitive ports still done) by seamen themselves.⁸

8. The close relationship between the occupations of seamen and longshoremen is well described in *International Stevedoring Co. v. Haverty*, 1926, 372 U.S. 50, 71 L.Ed. 157, (decided before the enactment of the Federal Longshoremen's and Harbor Workers' Act) wherein Justice Holmes, in holding that longshoremen were "seamen" within the meaning of the Jones Act, said:

"It is true that for most purposes, as the word is commonly used, stevedores are not 'seamen'. But words are flexible. The work upon which the plaintiff was engaged was a *maritime service formerly rendered by the ship's crew*. [Citation] We cannot believe that Congress willingly would have allowed the protection to men *engaged upon the same maritime duties* to vary with the accident of their being employed by a stevedore

In the original *Jensen* case the Supreme Court held, 5 to 4, that the New York State Workmen's Compensation Act could not validly be applied to the death of a stevedore killed while unloading a ship. The majority opinion held that "the general maritime law" was part of our national law (244 U.S. at 215) and that State legislation was invalid if it "works material prejudice to the characteristic features of the general maritime law" (244 U.S. at 216). The Court conceded:

"* * * it would be difficult, if not impossible, to define with exactness just how far the general maritime law may be changed, modified, or affected by state legislation. *That this may be done to some extent cannot be denied.*" (244 U.S. 216, emphasis added.)

but held that on the facts of the case before it, the employment was so maritime that the State compensation act was invalid, stating:

"The work of a stevedore, in which the deceased was engaging, is *maritime* in its nature; his employment was a *maritime* contract; the injuries which he received were likewise *maritime*; and the rights and liabilities of the parties in connection therewith were matters clearly within the admiralty jurisdiction." (244 U.S. 217, emphasis added.)

Thus, in the *Jensen* case, and each of the subsequent cases cited by Appellant's counsel, wherein the Supreme Court under the leadership of Justice McReynolds held certain occupational pursuits subject to exclusive control by Admiralty, the opinion of the Court emphasized the "maritime" nature of the employment and its connection with the classic maritime pursuits.

rather than by the ship . . . In this statute 'seamen' is to be taken to include stevedores *employed in maritime work on navigable waters*, as the plaintiff was, whatever it might mean in laws of a different kind." (372 U.S. at page 52, emphasis added.)

In *Knickerbocker Ice Co. v. Stewart*, 1920, 253 U.S. 149, 64 L.Ed. 834 (another 5 to 4 case), the Court stated the decedent's death occurred "while employed by Knickerbocker Ice Co. as bargeman and *doing business of a maritime nature*" (253 U.S. at 155, emphasis added) and held the particular act there in question invalid because seeking to sanction State compensation remedies "for injuries suffered by employees *engaged in maritime work*" (253 U.S. at 163-164, emphasis added).

In *Great Lakes Dredge and Dock Co. v. Kierejewski*, 1923, 261 U.S. 470, 67 L.Ed. 756, involving the death of a shipyard worker killed while working on a floating vessel, the Court said "while performing *maritime* service to a complete *vessel afloat*, he came to his death upon *navigable waters* * * *" (261 U.S. at 480, emphasis added).

In *Washington v. Dawson & Co.*, 1924, 264 U.S. 219, 68 L.Ed. 646, two cases were dealt with jointly; one presented the question "whether one engaged in the business of *stevedoring*, whose employees work *only on board ships in the navigable waters* of Puget Sound, can be compelled to contribute to the accident fund provided for by the Workmen's Compensation Act of Washington", while the other dealt with jurisdiction over "the death of a workman killed *while actually engaged at maritime work, under maritime contract, upon a vessel* moored at her dock in San Francisco Bay and discharging her cargo" (264 U.S., pages 221-222, emphasis added.)

In *Gonsalves v. Morse Dry Dock and Repair Co.*, 266 U.S. 171, 69 L.Ed. 228 (which so far as appears did not involve the question of a State Compensation Act at all) the Supreme Court held that a personal injury was subject to Admiralty law where it occurred to a shipyard worker working on shell plates of a ship tied up in a floating dock,

the Court holding in a brief opinion a ship "supported by a structure floating on navigable waters" was not "on land."

In *Robins Dry Dock and Repair Co. v. Dahl*, 1925, 266 U.S. 449, 69 L.Ed. 372, the Court held that the rights of a shipyard worker injured while "doing repair work on the *Steamer El Occident, then lying in navigable waters at Brooklyn*" were governed by Admiralty, not State law.

That the basis of the *Jensen* doctrine is the presence of an employment so *essentially maritime* that it should be regulated only by the Federal Government is made clear by examining the cases cited at pages 21-25 of this Brief. These cases are, of course, all consistent with *Jensen* (as indeed is to be expected since they are unanimous opinions, written by Justice McReynolds, the author of the *Jensen* doctrine). Thus in *Grant Smith-Porter Ship Co. v. Rohde*, discussed above at page 21, the Court emphasized the non-maritime aspects of the employment in question in the following words:

"The contract for constructing 'The Ahala' was *nonmaritime*, and although the incompleted structure upon which the accident occurred was lying in navigable waters, *neither Rohde's general employment, nor his activities at the time, had any direct relation to navigation or commerce * * ** And as both parties had accepted and proceeded under the statute by making payments to the industrial accident fund, it cannot properly be said that they consciously contracted with each other in contemplation of the general system of maritime law. *Union Fish Co. vs. Erickson*, 248 U.S. 308, 63 L.ed. 261, 39 Sup. Ct. Rep. 112. Under such circumstances regulation of the rights, obligations and consequent liabilities of the parties, as between themselves, by a local rule, would not necessarily work material prejudice to any characteristic feature of the general *maritime* law, or interfere with the proper harmony or uniformity of that law in its international or interstate relations."

* * * * *

“This conclusion accords with *Southern P. Co. vs. Jensen* * * * and *Knickerbocker Ice Co. vs. Stewart* * * *. In each of them *the employment or contract was maritime in nature* and the rights and liabilities of the parties were prescribed by general rules of maritime law essential to its proper harmony and uniformity. *Here the parties contracted with reference to the state statute;*” * * * (257 U.S. at pages 473-474, emphasis added.)

In *Millers Indemnity Underwriters v. Brand*, discussed above at page 22, involving the death of a diver, the Court cited and relied upon its prior decision in the *Rohde* case, noting that it had there “stress[ed] the point that the parties were clearly and *consciously* within the terms of the [State Workmen’s Compensation] statute *and did not in fact suppose they were contracting with reference to the general system of maritime law* * * *” (270 U.S. at 64, emphasis added).

In *Alaska Packers Assn. v. Industrial Accident Commission* case, discussed above at page 23, the Court held that the contention that the employment of a fisherman whose duties also embraced work on land in connection with canning operations was to be governed exclusively by maritime law was “incompatible with” the doctrine of the *Rohde* and *Millers Indemnity* cases (276 U.S. at 469).

The emphasis which the Supreme Court gave to the contract and understanding of the parties is peculiarly relevant in this case, where the applicable Collective Bargaining Agreement specifically provided for California workmen’s compensation (Tr. 19-20).

Appellant’s counsel seek to distinguish these cases as “ship-shore cases” and argue that all cases involving “com-

merce and navigation" under the *Jensen* doctrine fall within the exclusive "subject matter of admiralty". Appellant's counsel then argue that the instant case clearly involved "commerce and navigation".

This contention is essentially a play on words. It is clear that in one sense airline flights constitute "commerce and navigation", but it is equally clear they do not do so within any sense comprehended by the *Jensen* doctrine. The difference is illuminated by one simple example: airline flights over the Continental United States constitute "commerce and navigation" in the *aviation sense*, but no one would contend that they are "subject matter of Admiralty". The verbal formula of Appellant's counsel can be made to stand up only by systematically omitting the essential adjective "*maritime*" in every mention of the *Jensen* doctrine. Once we remember that the *Jensen* doctrine has to do with *maritime* law and *maritime* navigation and *maritime* commerce, and that (to borrow the words of Judge Goodman in the *King* case) an airline crew is "employed in a *non-maritime industry* and performed *no maritime work*" (16S F. Supp. at page 139), Appellant's contention stands revealed for what it is—essentially a play on words.

We believe, therefore, there is no occasion in this case to go into such questions as the current status of the *Jensen* doctrine (which at present is argued by many to have vitality primarily as a doctrine defining the jurisdictional "line" presumably contemplated by Congress in enacting the Federal Longshoremen's Act) because, for the reasons given above, we believe there is no possible conflict between the *Jensen* doctrine and the ruling of the court below in the instant case.

Here the expectation of both parties to the employment (as exemplified in the Collective Bargaining Agreement, see Tr. 19-20) is aptly described in the words of the Supreme Court in the *Rohde* case:

“Here the parties contracted with reference to the state statute; their rights and liabilities had no direct relation to navigation, and the application of the local law cannot materially affect any rules of the sea whose uniformity is essential * * *” (257 U.S. at page 477)

The employment here involved was simply not “maritime” nor connected directly nor indirectly with navigation or sea-borne commerce, the traditional subjects of the “general maritime law”. There is no present and existing “uniformity” or even similarity (certainly not an “*essential*” uniformity) between either the legal or factual positions of the traditional maritime employments, and the employment of the airline flight personnel here involved.

If there were in fact an “identity”, or even a “family relationship” between traditional maritime employments, on the one hand, and airline employment on the other, Congress would undoubtedly have *assumed* jurisdiction over the field of industrial injuries of airline employees, and have passed a law assimilating the rights and remedies of such employees for industrial injuries to those of maritime workers and seamen, such as the Federal Longshoremen’s Act or the Jones Act. This Congress has not done. This intentional failure to act is powerful evidence that, certainly in the eyes of Congress, there is no “essential uniformity” in legal treatment to be preserved between these two widely differing industries, the most ancient form of transportation on the one hand, and the most modern on the other, operating in two completely different media.

The employment, duties, skills, working conditions, interests, problems and general situation of airline crews flying across land and ocean are completely dissimilar and unrelated to those of seamen engaged in traditional maritime pursuits. True “uniformity” could not be created, let

alone preserved, by treating airline crews like seamen. The true uniformity and identity which in fact exists is that between airline flights over oceans and airline flights over land; the uniformity in legal treatment that should exist is between those two situations. To make the respective rights and duties as between the crew members of a commercial airliner and their employer radically vary depending on whether a particular flight is over land or over ocean (which might even vary upon the particular choice of routes between the same two points or, even more anomalously, in the case of an "ocean" flight (which is in fact always a flight over both land and ocean) would vary depending upon whether trouble developed over the over-land or over-ocean portion of the flight) would be not to preserve and protect an existing "uniformity," but would rather completely destroy uniformity and instead weave a crazy-quilt pattern into the law of industrial injuries of the airline industry.⁹

It would create only confusion and arbitrary and unexpected consequences for both airline employees and employers to hold that, while Workmen's Compensation governed in the case of all industrial injuries arising on or over land, in the case of injuries or death occurring upon or over the water Workmen's Compensation was inapplicable and recovery for industrial injuries in such latter (and exactly equivalent) situation could be had only upon

9. The language which Appellant's counsel quotes (at page 9 of Appellant's Opening Brief) from the opinion of this Court in *Alaska Packers Assn. v. Marshall*, 1938, 95 Fed. 2d 279, in our opinion supports Appellee's position, rather than Appellant's. In that language this Court rejected any result "where * * * the relationship of seamen to owner would vary, maybe half a dozen times, in the course of a voyage." A similar arbitrary variation in the mutual rights and duties between an airline crew and its employer depending upon where an accident chanced to occur, a result which this Court found manifestly undesirable, is the result which Appellant's position compels, and is a result prevented by ours.

proof of fault. Where no fault of the employer was involved (and, in view of the high standard of care used in the aviation industry and the various natural hazards of air transportation, this would usually be the case)¹⁰ there would be no recovery at all, either for an injured employee or, in the event of death, for his dependents. Even if it be assumed that fault on the part of the employer was present, in the nature of the case this would be difficult or impossible for the claimant to establish and there again recovery would be defeated. Even where negligence could be shown and a recovery secured, this would occur only after prolonged litigation. Prompt payment of the medical and indemnity benefits provided under a Workmen's Compensation Act would be conspicuously absent. So anomalous a result, with such unexpected consequences, should be avoided if it is possible to do so.

Commercial airliners have been flying across the ocean for some twenty to twenty-five years now, since the mid-1930's. The crews of such airplanes and their employers during this period have operated upon the assumption that during such flights they were covered and protected by the applicable State compensation act of their State of employment. We submit that Appellant's counsel have presented no legal or practical reasons to overturn this situation and at this late date to change the rules.

10. In this connection the air cases cited in Appellant's Opening Brief are very much in point. Both the *Trihey* case and the *D'Aleman* case affirmed trial court rulings in favor of the *defendants*, on the ground *that no negligence had been shown*. In addition, any plaintiff would face the barrier to recovery discussed on pages 44-49 of this Brief.

The Federal Death on the High Seas Act Does Not Displace State Workmen's Compensation. The Intention of Congress Was Merely to Remedy a Defect in the Common Law and Not to Displace or Affect State Remedies, Particularly State Workmen's Compensation Acts. This Is Shown by: (a) the Language of the Act, (b) the Legislative History of the Act, (c) the Cases.

Appellant's Opening Brief also inferentially argues that State workmen's compensation acts are displaced in this case by statute, by the mere existence of the Federal Death on the High Seas Act. We have previously demonstrated that the mere existence of an otherwise applicable Federal remedy does not in itself exclude and render ineffective a State compensation act on facts such as here involved. However, Appellant argues that in this case Congress has in the Death on the High Seas Act "prescribed an exact measure" of jurisdiction and thus inferentially argues that it was the intent of Congress to displace State compensation remedies in any area within the territorial coverage of the Act. The question thus presented, therefore, is whether or not it was the intent of Congress, in enacting the Death on the High Seas Act, to displace and supersede State workmen's compensation remedies which would otherwise govern.

The intent of Congress may be sought by examining: (a) the language of the Act, (b) the legislative history of the Act, and (c) cases construing the Act.

(a) The Language of the Act Suggests No Intent to Displace State Compensation Remedies.

It is surprising that Appellant, in stressing that the language of the Act ("* * * beyond a marine league from the shore") has prescribed an "exact measure" of jurisdiction chooses to ignore the fact that the Act not only contains no language expressly purporting to supersede State work-

men's compensation remedies, but instead does the exact reverse. Section 7 of the Act (46 U.S.C.A. Section 767) reads as follows:

"Exceptions from Operation of Chapter.

"The provisions of any State statute giving or regulating rights of action or remedies for death *shall not be affected* by this chapter * * *" (Emphasis added.)

The California Workmen's Compensation Act and its exclusive remedy provision are "provisions" of a "State statute * * * regulating * * * remedies for death * * *". To deny it effect would be to "affect" it to the extreme degree; it would be in effect to *repeal* it.

The language is so clear that we believe, if we wished, we could well stop here.

(b) The Legislative History Does Not Indicate Any Intention to Displace State Workmen's Compensation Acts.

The Death on the High Seas Act was passed by the 66th Congress and became law on March 30, 1920. The bill was debated in the House of Representatives on March 17, 1920; the report of the debate appears in 59 Congressional Record, pages 4482-4487. A study of that debate, we submit, reveals two propositions very clearly:

(1) The sole purpose of the bill was to remedy a defect of the common law, whereby a defendant who had negligently injured another, and was liable for said injuries if the victim lived, escaped liability altogether if the victim died. On land, this defect had been remedied by statute by most State legislatures, but the common law rule had not been changed in admiralty. This anomaly in admiralty law was vivid in the mind of the Congress, in view of the litigation arising out of the then-recent sinking of the Titanic. The purpose of the Act was to remove this anomaly of the common law and permit recovery in the event of death

under the same circumstances which would have governed had the decedent survived. It seems safe to say that had there been no such anomaly of the common law, there would never have been a Death on the High Seas Act.

(2) It was the intention of Congress not to displace or disturb State remedies. This was made very clear by the circumstances which led to the offering and adoption of an amendment by Congressman Mann. As originally proposed, the bill *would* by implication have superseded State remedies. Congressman Mann specifically objected to this and proposed an amendment deleting the language which would have led to this result. The amendment, although opposed, was adopted.

Pertinent portions of the legislative history, which clearly demonstrate the above two propositions, appear in Appendix B to this Brief.

With respect to the question whether the Act was intended to supersede State workmen's compensation remedies, it is pertinent to note that the Congress which enacted the Act in 1920 was friendly, not hostile, to the maximum possible application of State workmen's compensation acts. As appears in the Congressional debate quoted in Appendix B, the Act had been under consideration for several years or more before its enactment by the 66th Congress. The case of *Southern Pacific Co. v. Jensen* (referred to at page 25 of this Brief above) holding (in a situation where Congress had not specifically spoken) that State compensation acts could not validly apply to traditional maritime employments insofar as uniformity was essential, was decided on May 21, 1917. On October 6, 1917, the 65th Congress passed a law amending the Judiciary Act so as to specifically provide there was preserved "to claimants the rights and remedies under the workmen's compensation law of any State". (Act of October 6, 1917, Chapter 97, 40

Stat. at L. 395.) This was the posture of the law on March 30, 1920, when the Death on the High Seas Act became law. Thereafter, when the United States Supreme Court subsequently held (5-4, reversing the New York State Courts) that this law was unconstitutional insofar as it was held to permit a New York State workmen's compensation law to be applied to a bargeman who was injured while "doing work of a maritime nature" *Knickerbocker Ice Co. v. Stewart*, 1920, 253 U.S. 149, 64 L. Ed. 834, the 67th Congress promptly passed the Act of June 10, 1922, Chapter 216, 42 Stat. at L., 634, which again sought to authorize jurisdiction of the State workmen's compensation laws to the maximum possible extent. (This Act was subsequently held unconstitutional, as applied to stevedores "whose employees work only on board ships in the navigable waters of Puget sound" (264 U.S. 221) in *Washington v. Dawson & Co.*, 1924, 264 U.S. 219, 68 L. Ed. 646.)

We submit that these Acts of the 65th and 67th Congresses (held invalid as to particular fact situations upon grounds not relevant to our case, see discussion at pages 25-34 of this Brief) constitute persuasive evidence as to the general attitude of the 66th Congress with respect to State workmen's compensation acts, at the time it considered and enacted the Death on the High Seas Act.

We think the foregoing makes it overwhelmingly evident that Congress, in enacting that Act, had neither a specific nor a general intent to displace or in any way affect workmen's compensation acts, but rather that both the general and specific intent of Congress was to the contrary.

(c) Neither the Holdings nor the Reasoning of the Decided Cases Indicate That the Death on the High Seas Act Superseded State Compensation Remedies.

Appellant's chief reliance seems placed on *Wilson v. Transocean Air Lines*, U.S.D.C., N.D. Cal., 1954, 121 Fed.

Supp. 85. In view of such reliance, it is noteworthy that the author of the *Wilson* opinion, Judge Louis Goodman, found that ruling totally inapplicable in the instant case.

In the *Wilson* case Judge Goodman expressed the opinion (121 Fed. Supp. at pages 90-91) that the enactment of the Federal Death on the High Seas Act superseded the operation of State *wrongful death acts* upon the high seas. (This statement was, under the facts posed in the *Wilson* case, arguably dictum, since, as appears in footnote 32 on page 93 in the opinion, the California Wrongful Death statute (upon which plaintiff relied) did not in any event purport to extend to the high seas or go beyond the territorial boundaries of California; and it was upon this basis that the defendant in the *Wilson* case argued it was inapplicable.) Although considering the contrary intendments of the Mann amendment, Judge Goodman arrived at his conclusion in view of various considerations, including the possible conflict arising from two statutes, State and federal, of the same general scope and character occupying the same area, and the desirability of avoiding constitutional questions which might otherwise arise under the *Jensen* doctrine.

It is very clear that the *Wilson* opinion dealt only with the effect of the Act upon State *wrongful death acts*. Judge Goodman's language was carefully limited in this regard, as indicated by the following extracts:

"So, while the Mann amendment provides a strong argument that the Death on the High Seas Act does not supersede *state wrongful death statutes* on the high seas, the argument is not so strong but what it is overcome by other considerations."

* * * * *

"Moreover, any attempt to apply a *state wrongful death statute* to a death occurring on the high seas,

would, today, raise a serious constitutional question.”
(Page 90)

* * * * *

“Finally, in all the years that have elapsed since the passage of the Death on the High Seas Act, it appears to have been the unanimous view of both the cases and the commentators that the Act supersedes the *state wrongful death statutes* as to actions for death occurring on the high seas.” (Page 91, emphasis added.)

Not only the language but the reasoning likewise is limited to the case of State wrongful death acts. The arguments Judge Goodman cites in this connection are persuasive. It is not unreasonable to hold that a valid Congressional enactment upon *the very same subject* demonstrates a Congressional intent to supersede comparable State statutes. The Death on the High Seas Act is cast in the form of a typical wrongful death statute, and is couched in the most general terms, appropriate to such a statute. It is therefore not unreasonable to hold that State *wrongful death statutes* (couched in the same general terms, addressed to the same situation, with the same general solution) are superseded by the Act to the extent they purport to operate within the same area. (Moreover, State wrongful death statutes in general do not purport or intend to apply outside the State’s own boundaries. There is no legal nor logical reason to apply State wrongful death acts outside a State’s boundaries, in contrast to State workmen’s compensation acts, where extra-territorial jurisdiction is essential if their purposes are to be fulfilled. See pages 11-20 of this Brief.)

As noted by Judge Goodman in his opinion in the *King* case, none of the factors which suggest the Act supersedes State *wrongful death statutes* are relevant in the case of State *workmen’s compensation acts*, particularly as to

workmen's compensation acts as applied to airline personnel flying over the high seas. The Death on the High Seas Act is not at all of the same type and character as the State compensation acts and is in no way directed at the specific problem (the regulation of the respective rights and remedies between airline employees and their employers) with which they deal. (The situation would, of course, be quite different were we considering an Act of Congress specifically regulating the respective rights and remedies of airline employees and their employers as to industrial injuries. The case would then resemble the situations presented by the F.E.L.A. Act and the Jones Act, where Congress has specifically dealt with the regulation of rights and remedies for industrial injuries in particular specified employments. As noted above, however, the Death on the High Seas Act was not framed at all with a view to regulating industrial injuries in a specific field of employment, but was merely to remove an anomaly in the general field of personal injury law.)

Likewise, as noted in the *King* opinion, and at pages 25-34 of this Brief, there is no possible conflict with the *Jensen* doctrine since airline personnel are *not* a traditional subject of maritime law, and to permit State workmen's compensation acts to apply to them would in no sense "interfere with the *essential* uniformity" of maritime law, since they are not a subject of maritime law to start with. Indeed, as Judge Goodman points out: "The decedent was employed in a *non-maritime* industry and performed *no maritime work*. Indeed the only aspect of this case which gives it any maritime flavor whatsoever is the locale of the accident." (166 Fed. Supp. at page 139.)

In short, as Judge Goodman held in the *King* case, the judgment in this case is in no way inconsistent with the

construction of the Act in *Wilson v. Transocean Airlines* and the cases following the *Wilson* case.

Moreover, it is interesting to note that Judge Denman, writing for the Court of Appeals for the Ninth Circuit in *Higa v. Transocean*, 1956, 230 Fed. 2d 780 (decided subsequent to the *Wilson* case) expressed the view that even State wrongful death acts were not superseded by the Act. In that case Judge Denman reviewed the legislative history and discussed the Mann amendment. (It will be recalled (see Appendix B) that the purpose of the amendment, in the words of its author, Congressman Mann, was "so that the Act will not take away any jurisdiction conferred now by the States.") Judge Denman noted trenchantly: "Congress agreed with Mann * * *" (230 Fed. (2d) at pages 782-783). (The actual holdings of the *Higa* and *Wilson* cases are of course consistent; the issue in each was whether a cause of action founded on the Death on the High Seas Act had to be brought in admiralty, and each case held that it did.

Thus whether the language of section 7 is to be read literally, as suggested by Judge Denman in the *Higa* case, or as subject to an implied exception as to State wrongful death acts by reason of constitutional questions otherwise created by the *Jensen* doctrine, as suggested in the *Wilson* case, this language must be given effect as to State workmen's compensation acts, at least insofar as they pertain to industrial accidents occurring in airline operations over the high seas, the contact of which with maritime matters is at most fortuitous and tangential.

It can thus be seen that any argument that the enactment of a "specific" act of Congress makes the situation of this case very different from that presented in the line of cases discussed at pages 21-26 of this Brief is completely without merit. That argument, when analyzed, must ultimately rest

on a contention as to the presumed intent of Congress. The intent of Congress, however, as manifested in the express language of the Act and its legislative history, particularly in the setting of the times and in the light of the purpose of the Act, is clearly to the contrary.

Appellant's Other Citations Discussed

Appellant's citation of *Reed v. Penn Ry. Co.*, 351 U.S. 502, 100 L.Ed. 1366, *Southern Pac. Co. v. Gileo*, 351 U.S. 493, 100 L.Ed. 1357, and *Senko v. LaCrosse Dredging Co.*, 352 U.S. 370, 1 L.Ed. 2d 404, seems wholly irrelevant in the present case. The *Reed* case and the *Gileo* case dealt with injuries to employees of *railroads* and concerned the proper construction of the 1939 Amendment to the *Federal Employers' Liability Act*, the meaning of which the Court ascertained in the conventional way from the language of the Amendment and the legislative intent reflected in the Senate report.

The *Senko* case dealt with the question whether a "deck hand" on a dredge usually at anchor in a river was a "member of a crew of a vessel" so as to be covered by the *Jones Act*. The Court held, 6 to 3, that sufficient evidence had been introduced to show that he was, in this connection noting that the duties of plaintiff's job would require him to take soundings and clean navigation lights if and when the dredge was in transit.¹¹

11. The Court also noted:

"The fact that the petitioner's injury occurred on land is not material. Admiralty jurisdiction and the coverage of the Jones Act depends only on a finding that the injured was 'an employee of the vessel, engaged in the course of his employment' at the time of his injury. *Swanson v. Marra Bros., Inc.* 328 US 1, 4, 90 L ed. 1045, 1047, 66 S Ct 869, citing *O'Donnell v. Great Lakes Dredge & Dock Co.*, 318 US 36, 87 L ed 596, 63 S Ct 488." (1 L. Ed. 2d 408, 352 U.S. at 373)

The logic of the rule that seamen injured on land while on ship's business are covered by seamen's laws supports our position in this

In each of these three cases, of course, the Court was dealing with an Act of Congress specifically directed at regulating remedies for industrial injuries in a specified employment. It seems clear none of these cases has any bearing on the issues in the instant case.

On Any Theory the Liability Imposed by the Death on the High Seas Act Is a Purely Derivative Liability, and Requires for Its Imposition That the Defendant Be One "Which Would Have Been Liable if Death Had Not Ensued". Pan American Would Not Have Been Liable to John Elvins King if Death Had Not Ensued, and the Act Therefore Has No Application in This Case.

As noted above, we anticipate that Appellant's counsel will contend that, even though a non-statutory admiralty remedy might be superseded by a State compensation act, the contrary occurs where there is an express Federal statute and that that statute (omitting Section 7 thereof, which Appellant's counsel has sought to disregard), solely controls. We believe that the foregoing sections of this Brief sufficiently dispose of such contention. Even if our position in this regard is not accepted, however, there is another equally sufficient answer.

It is to be noted that the Death on the High Seas Act does *not* provide that there is to be a cause of action in *every* case where a death occurs on the high seas due to negligence; instead the Act provides that with respect to a death caused by wrongful act, negligence or default on the high seas, a cause of action is granted "against the vessel,

case, rather than Appellant's. It is eminently sensible to say that a seaman ashore on ship's business is still a seaman, whose rights and obligations should be determined by seamen's laws; it likewise makes eminently good sense to hold that an airline crew, flying over an ocean, is still an airline crew, and that their rights and obligations should be governed by the laws normally applicable to airline crews.

person or corporation which would have been liable *if death had not ensued*." The cause of action created lies only where the decedent might himself have recovered had he survived.¹²

The liability thus created is a derivative liability to remedy the gap or omission in the common law whereby a defendant, liable for personal injuries caused by his negligence, nevertheless escaped liability because the plaintiff died.

It is clear from the legislative history previously discussed (see the introduction of the discussion of the bill by

12. That this is a basic principle in this area of the law clearly appears in the leading text book, *Tiffany, Death by Wrongful Act*, 2nd Edition, 1913, published only seven years before the Death on the High Seas Act was enacted. Section 63 of that text reads as follows:

"Sec. 63. *Act or Neglect Must Be Such that Party Injured Might Have Maintained Action.*

"An essential limitation upon the words 'wrongful act, neglect, or default' is created by the provision that they must be such as would have entitled the party injured to maintain an action therefor. This provision makes it a *condition* to the maintenance of the statutory action that an action might have been maintained by the party injured for the bodily injury. The condition has reference, of course, not to the loss or injury sustained by him, but to the circumstances under which the bodily injury arose, and to the nature of the wrongful act, neglect or default; and, although this condition has not been expressed in California, Idaho, Kentucky, and Utah, *no case has been found in which it has not been implied.*

"*A preliminary question arises, therefore, in every action for death, namely, was the act, neglect, or default complained of such that if it had simply caused bodily injury, without causing death, the party injured might have maintained an action?*" (Emphasis added, pages 132-133.)

The present vitality of this condition is illustrated by a quotation from the *Fernandez* case (discussed at page 10 above of this Brief) with respect to the very Act here in question:

"The Death on the High Seas Act recognizes this distinction for it does not create a cause of action or grant a right of recovery for death in every situation but only against those defendants 'which would have been liable if death had not ensued' ". (156 Fed. Supp. 94 at 97)

the House Committee chairman, quoted in Appendix B) that the purpose of the Act was solely to remedy this anomaly of the common law, and to bring the maritime law into conformity with modern notions in this respect. (Virtually all States had by this time enacted wrongful death statutes.) The purpose was to prevent a tortfeasor, otherwise liable by reason of his wrongful act, neglect or default, from escaping liability because the personal injuries inflicted proved fatal. This was achieved by, in substance, providing that the liability would continue to exist notwithstanding the death; the "person or corporation which would have been liable if death had not ensued" would still be liable. That the liability under the Act was intended to be merely the same liability which would have existed by reason of a defendant's wrongful act, neglect or default in the event death had not ensued, no more, no less, is shown by Section 5 of the Act, (46 U.S.C.A., Section 765) which provides as follows:

"If a person die as the result of such wrongful act, neglect, or default as is mentioned in section 761 of this title *during the pendency in a court of admiralty of the United States of a suit to recover damages for personal injuries in respect of such act, neglect, or default*, the personal representative of the decedent may be substituted as a party and the suit may proceed as a suit under this chapter for the recovery of the compensation provided in section 762 of this title." (Emphasis added.)

The parallel structure is obvious. If an action is pending for personal injuries in respect of a wrongful act, neglect or default, and the plaintiff dies, the personal representative of the plaintiff is simply substituted and the suit may proceed under the Death on the High Seas Act. No problem is created because the liability being enforced is the same.

There is not even a hint, either in the legislative history or in the text of the Act, of any intention to impose liability for death where there would have been no liability for injury, or to disrupt and interfere with the scheme of State workmen's compensation acts (See 59 Congressional Record pp. 4482-4487).

It is clear that had the decedent Hudson suffered only personal injuries from the accident in question he could *not* have sued Transocean on any theory of alleged negligence or wrongful conduct; his sole right would have been to compensation, payable, not on the basis of anyone's fault, but by reason of the industrial nature of the injury.

Even if in such a situation the decedent Hudson would have possessed a non-statutory admiralty remedy in the *absence* of an applicable State workmen's compensation act, the situation would be identical with those presented in the cases discussed at pages 21-26 of this Brief; that is, the exclusive nature of the State workmen's compensation act would control under the doctrine of the *Rohde* case. (In such a situation, involving personal injuries only, Libelant would be unable to try to distinguish those cases by citing the existence of an "express" Act of Congress, for there is none.)

As pointed out above, we believe that the situation of air line flight personnel is *sui generis*, and not properly to be assimilated with or even related to that of seamen and others following traditional maritime pursuits. Even if the situation of air line personnel were in general assimilated to that of seamen, however, this would not help Appellant, for the reason that, (until the enactment of the *Jones Act* in 1920, specially creating a remedy) the traditional admiralty rule was that a seaman, could *not* sue his employer for injuries allegedly due to the employer's negli-

gence, his sole remedies being maintenance and cure and the warranty of seaworthiness. Thus, in the leading case of *The Osceola*, 1903, 189 U.S. 158, 47 L. Ed. 760, a Court of Appeals certified to the United States Supreme Court the question whether the owners of a vessel were liable to a member of the crew for personal injuries sustained by him by reason of the master's negligent conduct in the navigation and management of the vessel. The Supreme Court, in a unanimous opinion, answered the certified question: "No", and held a seaman's remedies were limited to maintenance and cure and the warranty of seaworthiness, and that a seaman was *not* allowed to recover for the negligence of the master or any member of the crew.

This doctrine was re-enunciated in *Chelentis v. Luckenbach Steamship Co.*, 1918, 247 U.S. 372, 62 L. Ed. 1171, where the Court affirmed a nonsuit in a seaman's action for personal injuries allegedly due to negligence. The Court cited *The Osceola* and quoted with approval the language of the Court of Appeals below that

"by virtue of the inherent nature of the seaman's contract the defendant's negligence and the plaintiff's contributory negligence were totally immaterial considerations in this case." (Pages 379-380)

It was for the express purpose of giving seamen a remedy against their employer for the latter's negligence that the Jones Act was passed in 1920 and that act (46 U.S.C.A., Section 688) is expressly limited to "*seamen*."

It is of course clear that flight personnel of commercial air liners, even when flying over oceans, are not "seamen" and that the Jones Act is inapplicable to them. See *Stickrod et al v. Pan American Airways Co.*, 1941 U.S. Av. Reports 69, 1 Av. Cases 942.

If air line personnel, therefore, are assimilated to seamen, this means that before 1920 they had no remedy against their employer for personal injuries due to the latter's negligence and, being *unaffected* by the Jones Act, *that situation remains true right down to the present date.*

This reasoning, we confess, may seem artificial, but it merely underscores the artificiality of trying to assimilate air line personnel to, or to treat them as comparable with, maritime workers. It is our belief that the only remedy for personal injuries arising from an industrial accident to air line personnel flying over an ocean is the applicable State Workmen's Compensation Act; that an air line employer is not liable on any negligence theory; that it is therefore not a "person or corporation which would have been liable *if death had not ensued*"; and that in the case of death, therefore, the Death on the High Seas Act does not apply.

Even if the Court Were to Hold That Appellant, Notwithstanding the California Workmen's Compensation Act, May Claim Under the Death on the High Seas Act, Appellant's Claim in This Case Is Barred by the Doctrine of Election of Remedies.

Appellant's Brief (at pages 9-11) refers several times to the "twilight zone" cases and the case of *Davis v. Department of Labor and Industries*, 1942, 317 U.S. 249, 87 L.Ed. 246. The "twilight zone" doctrine, as this Court knows, was evolved by the Supreme Court in 1942 in the *Davis* case and lays down a "practical rule" to resolve certain close cases which can arise as to whether an industrial injury in a quasi-maritime activity is governed by the Federal Longshoremen's Act, on the one hand, or by a State workmen's compensation act, on the other. The effect of the "twilight zone" doctrine is, in marginal Longshoremen's Act-State workmen's compensation cases, to confirm jurisdiction in whichever administrative body first assumes jurisdiction

with the result that in effect, though not in theory, in such close cases there is initially concurring jurisdiction.

We do not believe either the "twilight zone" doctrine or the *Davis* case is at all pertinent in the instant case. First, this is not a Longshoremen's Act case. Second, we believe it clear that the sole remedy afforded in an airline industrial injury is State workmen's compensation since Congress clearly has enacted no compensation act of any type specifically directed at regulating airline industrial injuries. (See pages 14-16 of this Brief.) (The Longshoremen's Act-State workmen's compensation act question is thus quite different from any Death on the High Seas Act-State workmen's compensation act question. In the former situation, unlike the latter, there is a specific Federal Act specifically directed at providing a *compensation* remedy against employers for *industrial injuries* in a specified area of employment.)

If, however, contrary to our position, this Court were to decide that the situation here *is* comparable to that presented in the "twilight zone" cases, we believe it is still clear that Appellant cannot recover in this case because she is barred by the doctrine of election of remedies.

As set forth in the Stipulation of Facts, Appellant, represented by independent counsel, filed an application for California workmen's compensation benefits, secured an award for the same after a hearing,¹³ and then upon further

13. The instant case, it is to be noted, is thus unlike certain cases (*Mass Bonding & Ins. Co. v. Larson*, 5 Cir. 1945, 149 F.2d 853; *Gahagan Construction Corp. v. Armao*, 1 Cir. 1948, 165 F.2d 301; *Kibadeauz v. Standard Dredging Co.*, 5 Cir., 81 F.2d 670, *cert. den.*) cited in *Western Boat Building Co. v. O'Leary*, discussed hereafter in the text, which held merely that there had been no estoppel or election *in particular fact situations* (where the claimant had either merely received voluntary payment of compensation without any official application therefor or determination by a Commission, or had not been represented by counsel).

application secured the commutation and payment of said award in a lump sum amount (Tr. 21-22).

In effect, Appellant, having a choice between seeking a definite and assured remedy, without proof of fault, or of seeking a possibly larger recovery, available only after litigation and proof of fault (with the possibility of *no recovery at all*) elected first to capture *and eat* the “bird in the hand”, and then to pursue the “bird in the bush”. We contend that by electing to claim and recover under the compensation act, Appellant has precluded herself from now asserting the new and different claim made in the present action. She has made an election of remedies and is bound by that election.

18 *Am. Jur., Election of Remedies*, Section 3, Page 129, reads as follows:

“Sec. 3. Definition and Nature.

Election is simply what the term imports—a choice shown by an overt act between two or more inconsistent rights, either of which may be asserted at the will of the chooser alone. An election of remedies may be defined as the choosing between two or more different and co-existing modes of procedure and relief allowed by law on the same state of facts. The doctrine is applicable where an aggrieved party has two remedies by which he may enforce inconsistent rights growing out of the same transaction and, being cognizant of his legal rights and of such facts as will enable him to make an intelligent choice, brings his action by one of the methods. *Under such circumstances, the law says he shall not thereafter adopt the alternate remedy, for a suitor cannot pursue a remedy which predicates his case upon one theory of right and thereafter seek a remedy inconsistent with such prior proceeding.*” (Emphasis added.)

Remedies under the Death on the High Seas Act and the California Workmen’s Compensation Act are intrinsically

inconsistent in law, in that the latter Act by its express terms bars any other remedy. Appellant, by electing the latter remedy, cannot now assert the former remedy.

We appreciate that this Court in *Western Boat Building Co. v. O'Leary*, C.A. 9, 1952, 198 F. 2d 409, a Longshoremen's Act-State Workmen's Compensation Act case, rejected just such a contention, relying primarily upon *Newport News Shipbuilding and Dry Dock Co. v. O'Hearne*, 1951, C.A. 4, 192 F. 2d 968. The latter case held on the facts there before it, there had been no election by prior resort to the State Commission because "as it now appears, the State Commission had no jurisdiction in the premises" (192 Fed. (2d) at 971.

We submit the *O'Leary* and *Newport News* cases must be reconsidered in the light of the recent Supreme Court case of *Hahn v. Ross Island Sand and Gravel Co.*, Jan. 12, 1959, U.S., 3 L. Ed. 292. The Supreme Court in that case construed its previous decision in *Davis v. Department of Labor and Industries* as giving a "twilight zone" waterfront worker in effect "*an election* to recover compensation under either the Longshoremen's Act *or* the Workmen's Compensation Law of the State in which the injury occurred" (p. 292, emphasis added). The Court therefore held (reversing the Oregon State courts below) that the plaintiff Hahn (whose injury, the Supreme Court said, plainly "occurred in the 'twilight zone'") might prosecute a common law suit for negligence under Oregon State law (permissible under Oregon State law, notwithstanding the existence of an Oregon Workmen's Compensation Act, because the employer had failed or refused to comply with the State Compensation Act). Both the language and the holding of this case make it clear that the Supreme Court views this situation as a true "election" situation. Thus, the Court held the plaintiff could prosecute his State negligence action. Can it be

supposed, if the plaintiff in the *Hahn* case now prosecutes his action to a conclusion, and recovers or fails to recover on the merits, that he may (notwithstanding his initial resort to the State courts, whose jurisdiction he maintained, against their initial rulings, by ultimate resort to the United States Supreme Court) thereafter take the position that the State courts were "without jurisdiction" and make claim and recover under the Federal Longshoremen's Act? We submit it would be incredible for any such result to be sanctioned by the courts, and that such result would not be sanctioned by the United States Supreme Court. It seems clear that the *Hahn* plaintiff would be held bound by his election.¹⁴ The language and holding of the Supreme Court in the *Hahn* case clearly implies a view of the Longshoremen's Act-State Workmen's Compensation Act situation totally inconsistent with the rationale of the *Newport News* case, upon which this Court in *O'Leary* relied. To the extent, therefore, that the instant case is viewed as in any way analogous to the "twilight zone" situation, (which, we repeat, we do *not* believe it to be) Appellant here too must be held bound by the election of remedies which she made.

14. Likewise, the Supreme Court's action in the *Baskin* case points unerringly in the same direction. In that case, a "twilight zone" situation, the California courts (in 89 Cal. App. 2d 632, 201 Pac. 2d 549) sustained a denial of jurisdiction under the State Compensation Act on the ground the case fell within the Longshoremen's Act coverage. That ruling was reversed by the United States Supreme Court in *Baskin v. Industrial Accident Comm.*, 1949, 338 U.S. 854, 94 L.Ed. 523. The California court thereupon reversed its position and sustained State jurisdiction in 97 Cal. App. 2d 257, 217 Pac. 2d 733 (1950), which judgment was affirmed in *Kaiser Co. Inc. v. Baskin*, 1950, 340 U.S. 886, 95 L.Ed 643. Can it be supposed that the United States Supreme Court would have permitted Baskin, after thus securing a State compensation remedy, to thereafter make claim under the Federal Longshoremen's Act, on the theory that the State Commission "as it now appears" all along "had no jurisdiction in the premises"?

Conclusion

The foregoing has demonstrated that :

(1) At the time of the accident in question the decedent Hudson was acting within the course and scope of his employment with Appellee Transocean; that Appellant, acting through independent counsel, filed an application for death benefits under the California Workmen's Compensation Act and, after a hearing, the California Industrial Accident Commission assumed jurisdiction and granted a death benefit award to Appellant and against Appellee Transocean and its workmen's compensation insurance carrier with respect to Hudson's death; that Appellant thereafter secured commutation of said award and a lump sum payment in full; that the California Workmen's Compensation Act expressly bars any other remedy;

(2) With respect to all other industrial accidents (including deaths) arising out of air line operations the applicable State Workmen's Compensation Act governs and controls the rights of the employees and employer; that under the applicable Supreme Court decisions, such State Workmen's Compensation Acts may exclude Federal Admiralty remedies otherwise available, where to do so would not materially interfere with the "essential uniformity" of maritime law; that to apply State Workmen's Compensation Acts with respect to air line industrial accidents occurring while airplanes are in flight over the ocean would not materially interfere with any essential uniformity of admiralty law, since airline employment is factually and legally totally unlike the traditional maritime pursuits;

(3) That such application of State workmen's compensation acts with respect to airline industrial accidents occurring while airplanes are in flight over the ocean does not violate the United States Constitution under the *Jensen*

doctrine, since that doctrine relates to maritime law and maritime situations, whereas airline employment is wholly non-maritime;

(4) The existence of the Federal Death on the High Seas Act does not change the situation, since the intention of Congress, as expressed in the language of the Act and its legislative history, was not to displace State remedies; that in any event, the Act would at most supersede only State wrongful death acts, and not workmen's compensation acts;

(5) On any theory the Death on the High Seas Act is inapplicable to the present situation, since that Act merely preserves rights of action which the decedent would have had against persons "if death had not ensued"; that the decedent Hudson would have had no right of action against his employer, Transocean, for personal injuries, since the same would have been barred by workmen's compensation and since no admiralty recovery is granted an employee against his employer for the latter's negligence, save in the case of the Jones Act, which covers only "seamen"; that the Death on the High Seas Act is therefore inapplicable;

(6) Even if it be assumed that Appellant initially might claim under the Federal Death on the High Seas Act as well as the California State Workmen's Compensation Act, her election to claim and recover under the latter Act constitutes a binding election of remedies which precludes subsequent resort to a Death on the High Seas Act remedy.

In view of the foregoing facts and legal authorities, we submit the District Court correctly decided that Transocean

was entitled to judgment as a matter of law on the admitted facts. That judgment was correct, and should be affirmed.
Dated at San Francisco, California, on June 18, 1959.

Respectfully submitted,

STEINHART, GOLDBERG, FEIGENBAUM
& LADAR

JOHN J. GOLDBERG

NEIL E. FALCONER

(Appendices Follow)

Appendix A

Opinion of District Judge Louis Goodman in the Case of Virginia J. King, Administratrix, v. Pan American World Airways, 1958, U.S.D.C., N.D. Cal. S.D., 166 Fed. Supp. 136:

GOODMAN, District Judge.

This cause presents the novel question whether the California Workmen's Compensation Act precludes an action for wrongful death under the Federal Death on the High Seas Act by the administratrix of the estate of an airline employee who in the course of his employment was killed in the crash of an airliner on the high seas.

The stipulated facts show that the decedent entered the employ of respondent Pan American World Airways, a New York corporation, at San Francisco, California, on October 12, 1942. He was steadily employed thereafter by Pan American and since December, 1947 was continuously based at San Francisco. On May 1, 1957, the decedent was assigned the position of Flight Service Supervisor. The duties of this position required him to spend the majority of his working time at the San Francisco base and the remaining working time in in-flight supervision and observation of pursers, stewards and stewardesses employed on Pan American aircraft flying in and out of San Francisco. On November 8, 1957, he was in the course of his employment aboard a Pan American airliner which crashed upon the high seas between the United States and Hawaii. Although it does not appear whether he was killed in the air or upon impact with the water, it is stipulated that he did not survive the crash.

On December 2, 1957, Pan American and its compensation insurance carrier filed an application with the California Industrial Accident Commission to determine their liability for death benefit and burial expenses under the

California Workmen's Compensation Act. At the hearing of this application on February 20, 1958, the decedent's wife, the libelant herein, appeared specially and contested the jurisdiction of the Industrial Accident Commission. On March 31, 1958, the Commission made an order finding that it had jurisdiction and awarded decedent's wife and minor children a death benefit totaling \$15,000.00. Meanwhile, on February 3, 1958, decedent's wife filed this libel under the Death on the High Seas Act¹ in her capacity as administratrix of decedent's estate.

It is established that a suit may be brought in admiralty under the Death on the High Seas Act for a death resulting from the crash of an aircraft upon the high seas. *Wilson vs. Transocean Air Lines*, D.C.N.D. Cal. 1954, 121 F. Supp. 85. There is no doubt that, in the absence of the California Workmen's Compensation Act, the libelant could maintain this action under the Death on the High Seas Act. But respondent contends that the California Workmen's Compensation Act has been properly applied to this case and affords the exclusive remedy against it for decedent's death.

The California Workmen's Compensation Act expressly provides compensation for the death, outside the State, of an employee hired or regularly employed in the State. West's Ann. California Labor Code § 3600.5. The right to recover such compensation is declared by the Act to be the exclusive remedy against the employer. West's Ann. California Labor Code § 3601.

The United States Supreme Court has upheld the power of the California legislature to provide compensation to California employees for industrial accidents occurring in other States of the Union and in the Territories. *Alaska Packers Association vs. Industrial Accident Commission*,

¹41 Stat. 537, 46 USCA §§ 761-768.

1935, 294 U.S. 532, 55 S.Ct. 518, 79 L. Ed. 1044. Does this power also extend to the High Seas?

In *Southern Pacific Co. vs. Jensen*, 1917, 244 U.S. 205, 37 S.Ct. 524, 61 L. Ed. 1086 the Supreme Court held that the New York Workmen's Compensation Law, § 1 et seq. could not be applied to a stevedore killed aboard a vessel in New York Harbor. Such an application of a state compensation law, the Court stated, would destroy the uniformity in respect to maritime matters which was intended to be preserved by the Constitutional provisions granting the Congress paramount power to fix and determine the maritime law. The Jensen rule was qualified by later cases in which the Supreme Court held that State compensation acts might be applied to injuries or deaths within the admiralty jurisdiction provided the application of the State Acts did not work material prejudice to any characteristic features of the general maritime law or interfere with the proper harmony and uniformity of that law in its international and interstate impacts.

In *Grant Smith-Porter Ship Co. v. Rohde*, 1922, 257 U.S. 469, 42 S.Ct. 157, 66 L. Ed. 321, a carpenter was injured while working on a partially completed vessel lying at a dock in the Willamette River at Portland, Oregon. The Court held that his sole remedy lay under the Oregon Workmen's Compensation Act, ORS. 656.002 et seq., which abrogated the otherwise existing right to recover damages in an admiralty court. In *Millers' Indemnity Underwriters vs. Braud*, 1926, 270 U.S. 59, 46 S.Ct. 194, 70 L. Ed. 470, a diver was suffocated while submerged from a floating barge anchored in the navigable Sabine River in Texas. The Court ruled that the Texas Workmen's Compensation Law, Vernon's Ann. Civ. St. art. 8306 et seq., prescribed the only remedy for his death and that its exclusive features abro-

gated the right to resort to the Admiralty court which otherwise would exist.²

In *Alaska Packers Association vs. Industrial Accident Commission*, 1928, 276 U.S. 467, 48 S.Ct. 346, 72 L.Ed. 656, the Supreme Court sanctioned the application of the California Act to a cannery worker injured while attempting to push a stranded fishing boat off an Alaskan beach. The injured workman was not employed merely to work on the fishing boat, but also to perform services on land in connection with canning operations. The Court found that, assuming the injury to be within the admiralty jurisdiction, he was not engaged in any work so directly connected with navigation and commerce that to permit the rights of the parties to be controlled by State law would interfere with the essential uniformity of the general maritime law. Thereafter the Court of Appeals for this Circuit upheld the application of the California act to two similarly employed cannery workers who met death in the wreck of a fishing schooner at sea. *Alaska Packers Association vs. Marshall*, 9 Cir., 1938, 95 F.2d 279.

Through the years the courts have experienced considerable difficulty in determining whether or not a particular application of a State compensation law to a case within the admiralty jurisdiction unduly interferes with the essential uniformity of the general maritime law or works material prejudice to its characteristic features.³ There has evolved no precise test for determining whether or not a State compensation act may constitutionally be exclusively applied to a death or injury within the admiralty jurisdic-

²Apparently the Court had in mind a suit in admiralty asserting the right of action given by the State Wrongful Death Act, *Vernon's Ann. Civ. St. art. 4671 et. seq.*, the death having occurred within the territorial waters of the State.

³For an account of these difficulties see Gilmore and Black "The Law of Admiralty" 333-354 (1957); Note, "Has the Jensen Case Been Jettisoned?" 2 *Stanford Law Review* 536 (1950).

tion. But, the present case clearly falls within the area where such application of a State compensation act is proper. The decedent was employed in a non-maritime industry and performed no maritime work. Indeed the only aspect of this case which gives it any maritime flavor whatsoever is the locale of the accident. It must be concluded that there is no Constitutional barrier to the application of the California Workmen's Compensation Act in this case.

There remains the question whether there is a statutory barrier. Libellant urges that the Congress intended the Death on the High Seas Act to afford the exclusive remedy for a death on the high seas. If this were the Congressional intent, the application of the California Workmen's Compensation Act is barred, since Congress possesses paramount power to legislate in respect to matters within the admiralty jurisdiction.

In *Wilson vs. Transocean Airlines*, D.C. 1954, 121 F. Supp. 85, this Court held that the Death on the High Seas Act superseded all State Wrongful Death Acts in respect to deaths occurring on the high seas. In a dictum in *Higa vs. Transocean Air Lines*, 9 Cir., 1955, 230 F.2d 780, 782-83, the Court of Appeals for this Circuit expressed a contrary view. We adhere to the decision in *Wilson* that the right to maintain a suit for wrongful death on the high seas accorded by the Death on the High Seas Act supersedes any state-given right of action for such a death.

But, the factors which, in *Wilson*, we found indicative of the Congressional intent that the Death on the High Seas Act should supersede the State Wrongful Death Statutes are not relevant to the State Compensation Acts. The Death on the High Seas Act and the State Wrongful Death Statutes afford a remedy for death upon a showing of fault; the State Compensation Acts grant relief for the death of a workman killed in the course of his employment on the

basis of his status as an employee. The Compensation Acts provide a certainty of relief unobtainable in a suit in admiralty. There is nothing in the legislative history of the Death on the High Seas Act to suggest that the Congress intended that the remedy given by the Act should displace any remedy afforded by a State Compensation Act for a death occurring on the high seas. It would not be reasonable to assume that the Congress had any purpose to deprive the dependents of an employee killed in the course of his employment of the unique protection which a State Compensation Act is competent to give them.

The Death on the High Seas Act was enacted to fill a void in the maritime law and provided an admiralty remedy for wrongful death where none had existed before. There is no indication that the Congress intended that this statutory remedy for death should have any different relation to the State Compensation Laws than the pre-existing non-statutory admiralty remedies for personal injury. Since the Supreme Court has ruled that State Compensation Acts, designed to afford an exclusive remedy to injured employees, abrogate the otherwise existing admiralty remedy for personal injuries in situations where the application of the state act does not interfere with the uniformity of the maritime law, it is reasonable to conclude that the Compensation Acts similarly abrogate the admiralty remedy for wrongful death accorded by the Death on the High Seas Act.

Respondent's motion for summary judgment in its favor is granted.

Appendix B

Extracts from the Discussion in the House of Representatives on March 17, 1920 on the Proposed Death on the High Seas Act (59 Congressional Record, Pages 4482-4485, March 17, 1920; emphasis added.):

Chairman Volstead began the discussion:

“Mr. Speaker, this legislation is an old friend that has been pending in Congress a great many years. It has been passed from time to time, sometimes in the House and sometimes in the Senate. The bill, if you will examine the report made upon it, *is intended to supply a defect which now exists under what was the common-law rule* as to actions affecting injuries that might be caused through the wrongful act or neglect of persons engaged in shipping on the high seas. If the injury did not result in death, a cause of action exists; the injured person might go into a court of admiralty and secure relief, but if death resulted courts applied the old common-law doctrine that the cause of action dies with the person; that is, the cause of action was personal and did not survive the injured party.

“The object of this bill is to give a cause of action in case of death resulting from negligence or wrongful act occurring on the high seas. Nearly all countries have modified the old rule which did not allow relief in the case of death under such circumstances. Under what is known as Lord Campbell’s act, England many years ago authorized recovery in such cases. France, Germany, and other European countries now followed this more humane and enlightened policy and allow dependent parties to recover in case of death of their near relatives upon the high seas.

“This bill was introduced in the Senate, has been passed by that body, and is substantially in the form in which it passed this House in the Sixty-fourth Congress. In the Sixty-fifth Congress this same bill, or a very similar one, was reported from the Judiciary Committee, but did not reach consideration on the floor of the House. * * *” (Page 4482, col. 1-2)

"Mr. Mann of Illinois. Now, I do not know whether I am right or wrong about it, because I have not examined the report on this bill carefully as reported this time. But I remember this bill very distinctly in previous Congresses, and my impression, which very likely may be erroneous, is that the purpose of the bill was to confer jurisdiction in certain cases of death where no jurisdiction now exists. I was under the impression that *the bill was not intended to take away any jurisdiction which can now be exercised by any State court* * * *" (Page 4484, col. 1)

* * * * *

"Mr. Mann of Illinois. We give a certain class of rights under this act. If this act as originally drawn by the admiralty lawyers was intended for the purpose of taking away jurisdiction now conferred by State statutes, it ought to be very critically examined." (Page 4484, col. 2)

* * * * *

"Mr. Mann of Illinois. They would not be required to comply with the laws of a State. The gentleman's proposition [i.e., the bill *before* the Mann amendment] would take away the right of the State to apply its own laws." (Page 4484, col. 2)

* * * * *

"Mr. Mann of Illinois. That is the way it will be left, *so that the act will not take away any jurisdiction conferred now by the States.*" (Page 4485, col. 1)

No. 16,349

IN THE

United States Court of Appeals
For the Ninth Circuit

MARY C. HUDSON, as Administratrix of
the Estate of Herbert A. Hudson,
Deceased,

Appellant,

vs.

TRANSOCEAN AIR LINES, a Corporation,
and SLICK AIRWAYS, INC., a Corpo-
ration,

Appellees.

APPELLANT'S REPLY BRIEF.

JOHN KRAMER,

SHERIDAN DOWNEY, JR.,

1212 Broadway, Oakland 12, California,

Proctors for Appellant.

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No. 16,349

IN THE

**United States Court of Appeals
For the Ninth Circuit**

MARY C. HUDSON, as Administratrix of
the Estate of Herbert A. Hudson,
Deceased,

Appellant,

vs.

TRANSOCEAN AIR LINES, a Corporation,
and SLICK AIRWAYS, INC., a Corpo-
ration,

Appellees.

APPELLANT'S REPLY BRIEF.

PRELIMINARY STATEMENT.

The brief for appellee discusses some five or six different theories of law, each of which it is claimed establishes that the California compensation remedy must be applied. As we read the brief these theories or points are as follows:

1. Because airline employees injured or killed while flying from one state to another, or in a foreign country, may be subject to compensation laws, the High Seas Act should not be applied to accidents over or on the high seas if state compensation is available.

2. The "twilight zone" cases relating to ship-shore accidents have established a precedent or principle which applies to the facts of this case.

3. The true test of exclusive admiralty jurisdiction is the "maritime" nature of the accident, and although somehow passengers may recover when injured in a high seas flight, employees may not because they are not "maritime workers".

4. Section 7 of the High Seas Act bars employees from recovery if covered by a state compensation law, although passengers are not barred, regardless of state death acts.

5. The language of the High Seas Act concerning "... who would have been liable if death had not ensued ..." bars recovery by an airline employee because of the "fellow servant" defense, preventing a seaman from recovering for negligence, and the airline employee, not being a seaman, cannot sue under the Jones Act.

6. This action is barred by the doctrine of election of remedies because, older decisions to the contrary, the Supreme Court has changed the rule in a recent decision.

May we briefly set forth our views regarding these assertions and point out the misconceptions which to us seem so apparent.

**DISCUSSION OF POINTS RAISED BY
APPELLEE IN ITS BRIEF.**

1. **THE LAWS REGULATING AIRLINE ACCIDENTS OVER LAND, WHETHER DOMESTIC OR FOREIGN, AND THE APPLICATION OF COMPENSATION ACTS TO SUCH ACCIDENTS IN DECISIONS CITED BY APPELLEE ARE IMMATERIAL TO THE ISSUES IN THIS CASE.**

Appellee has cited a number of cases concerned with airline accidents *not on the high seas*, wherein it has been held that the compensation law of the state of employment bars suit against the employer, even though the accident occurred out of the state. We fail to see what bearing these decisions have on the issues in this case. Here the question is whether a state act may be invoked to prevent the application of an apparently all-inclusive Federal remedy. Here we have a specific act of Congress regulating liability in a field left exclusively to the Federal Government by the Constitution itself.

We believe that this theory of defense simply injects a complicated question of conflict of laws and public policy, which can in no way logically affect the totally different question here involved.

In connection with this same theory appellee refers to the Supreme Court decisions in *Feres v. United States*, 340 U.S. 135, 95 L.Ed. 152, and *Johansen v. United States*, 343 U.S. 427, 96 L.Ed. 1051. These cases were concerned with the rights of Federal employees injured during employment with respect to the Tort Claims Act, as opposed to the Federal Employees' Compensation Act and certain servicemen's benefit acts. Accordingly, the Court merely decided

issues relating to possible conflict between two Federal acts in a field admittedly reserved to Federal jurisdiction. What application can such rulings have to the jurisdictional question in our case?

**2. THE TWILIGHT ZONE CASES BY THEIR VERY NATURE
DISPROVE APPELLEE'S POSITION.**

We do not believe that there can be found in any reported American decision any holding that the sinking of a ship on the high seas is other than an admiralty matter. We discussed in our opening brief several "ship-shore" or "Twilight Zone" cases because in the only decision bearing upon the same issue involved in our case the District Court had cited these cases as a basis for its ruling. (*King v. Pan-American*, 166 Fed. Supp. 136.) We think these longshore and harbor worker cases simply prove that the Federal Government has surrendered jurisdiction in admiralty matters in only a very narrow and limited field and that in no case has that surrender been extended to activity on the high seas. The very absence of any decisions concerned with jurisdiction as between state and Federal laws in accidents on the high seas certainly is the best proof that Federal jurisdiction in such locality is beyond dispute. If we assume that it is now settled law that the Death on the High Seas Act does apply to airplane crashes and that, as the Court says in *D'Aleman v. Pan-American*, 259 Fed. (2d) 493,

“To give to passengers on ships protection of the Act and deny similar rights to passengers in the air would amount to unjustifiable and highly technical discrimination”,

what logical reason can be given to include the crew of a vessel under admiralty and at the same time exclude the crew of an airplane?

It is this hurdle which the appellee seeks to clear by constructing a false connection between “twilight zone” cases and this case. But the distinctions are so obvious that such reasoning must fail. None of these “ship-shore” cases is concerned with a member of the crew of a vessel. In each decision the lack of connection with navigation or commerce was an essential factor in the holding of state jurisdiction. In each instance the Court points up the factor of “local concern”.

A still more fundamental difference lies in the obvious reason why such class of cases have been a most perplexing source of litigation. All of the cases have been concerned with accidents occurring in state or territorial waters and very close to shore, none of them with a vessel moving on the high seas.

We conclude that while the study of “ship-shore” and “twilight zone” litigation is complex and at times uncertain, that it at least does clearly prove the very limited boundaries in which there is any question about Federal jurisdiction.

3. APPELLEE HAS MISTAKEN THE TRUE TEST OF ADMIRALTY JURISDICTION AND IS CLEARLY WRONG IN STATING THAT MARITIME EMPLOYMENT IS THE CONTROLLING FACTOR.

A review of admiralty history in the United States by way of reading the decisions of the Supreme Court will at once disclose that *locality* is the true test of admiralty jurisdiction. We concede that in some of the "twilight zone" cases the Court has also placed some weight upon maritime duties, but this has become a factor in only those borderline instances where the question involved was as to "local concern", and navigation or commerce were not a part of the activities.

Perhaps the most cited decision in admiralty history has been an 1865 decision of the Supreme Court which concerned a suit for damages resulting from a fire aboard a ship moored at a dock, which fire spread to the adjacent dock and warehouse. In this decision, *The Plymouth (Hough v. Western Transp. Co.)* 3 Wall. 20, 18 L. Ed. 125, the Court stated:

"It is admitted by all the authorities, that the jurisdiction of the admiralty over marine torts depends upon locality—the high seas, or other navigable waters within admiralty cognizance; and being so dependent upon locality, the jurisdiction is limited to the sea or navigable waters not extending beyond high water mark.

"In the case of *Thomas v. Lane*, 2 Sumn., 9, Mr. Justice Story, in a case where the imprisonment was stated in the libel to be on shore, observed: 'In regard to torts, I have always understood that the jurisdiction of the admiralty is exclusively dependent upon the locality of the Act. The ad-

miralty has not, and never, I believe, deliberately claimed to have, any jurisdiction over torts, except such as are maritime torts; that is, torts upon the high seas, or on waters within ebb and flow of the tide.' Since the case of *The Genesee Chief*, 12 How., 443, navigable waters may be substituted for tide-waters. This view of the jurisdiction over maritime torts has not been denied.

"But it has been strongly argued that this is a mixed case, the tort having been committed partly on water and partly on land; and that, as the origin of the wrong was on the water, in other words, as the wrong began on the water (where the admiralty possesses jurisdiction), it should draw after it all the consequences resulting from the act. These mixed cases, however, will be found, not cases of tort, but of contract, which do not depend altogether upon locality as the test of jurisdiction, such as contracts of material-men, for supplies, charter-parties, and the like. These cases depend upon the nature and subject-matter of the contract, whether a maritime contract, and the service a maritime service to be performed upon the sea, or other navigable waters, though made upon land. The cases of torts to be found in the admiralty, as belonging to this class, hardly partake of the character of mixed cases, or have, at most, but a very remote resemblance. *Thomas v. Lane*, 2 Sumn., 2; *The Huntress*, Davies, 85; *U. S. v. Magill*, 1 Wash. C. C. 463; *Genesee Chief*, 12 How., 443; *Hollingsworth v. Fry*, 4 Call. 345; 1 Kent, Com. 367, and *note*; *Plummer & Webb*, 4 Mason, 383.

"They are cases of personal wrongs, which commenced on the land; such as improperly enticing a minor on board a ship and there exercising un-

lawful authority over him. The substance and consummation of the wrong were on board the vessel—on the high seas, or navigable waters—and the injury complete within admiralty cognizance. It was the tortious acts on board the vessel to which the jurisdiction attached.

“This class of cases may well be referred to as illustrating the true meaning of the rule of locality in cases of marine torts, namely: that the wrong and injury complained of must have been committed wholly upon the high seas or navigable waters, or, at least, the substance and consummation of the same must have taken place upon these waters to be within the admiralty jurisdiction. In other words, the cause of damage, in technical language, whatever else attended it, must have been there complete.

“Much stress has been given to the fact, by the learned counsel who would support the jurisdiction, in his argument, that the vessel which communicated the fire to the wharf and buildings, was a maritime instrument, or agent, and, hence, characterized the nature of the tort. In other words, that this characterized it as a maritime tort and, of course, of admiralty cognizance.

“But this, we think, a misapprehension. The owner of a vessel is liable for injuries done to third persons or property by the negligence or malfeasance of the master and crew while in the discharge of their duties and acting within the scope of their authority. It is upon this principle that the defendants are liable, if at all, to the libelants for the damages sustained. The circumstance that the agents were in the employment of the owners on board the vessel, and that the neg-

ligence occurred while so employed, and which occasioned the damage, gives to the libelants the right of action. But if they had been employed upon any other structure in the river—on a raft, or floating platform, for work on the river, and the fire had been communicated to the wharf and buildings on account of their negligence while so engaged, the right of action would have been the same. The jurisdiction of the admiralty over maritime torts does not depend upon the wrong having been committed on board the vessel, but upon its having been committed upon the high seas or other navigable waters.

“A trespass on board of a vessel, or by the vessel itself, above tide-water, when that was the limit of jurisdiction, was not of admiralty cognizance. The reason was, that it was not committed within the locality that gave the jurisdiction. The vessel itself was unimportant. The fact, therefore, of its having taken place on board the propeller *Falcon*, in the present case, is not an element that imparts any peculiar character to the nature of the tort complained of. This is so in cases of collision, in which the offending vessel may be attached and proceeded against as one of the remedies for wrong done. The jurisdiction of the admiralty does not depend upon the fact that the injury was inflicted by the vessel, but upon the locality—the high seas, or navigable waters where it occurred. Every species of tort, however occurring, and whether on board a vessel or not, if upon the high seas or navigable waters, is of admiralty cognizance.”

The holding above, although frequently questioned, has remained the law. In *Wilson v. Transocean Air-*

lines, 121 F. Supp. 85, Judge Goodman cites "*The Plymouth*" as authority for his statement that:

"Admiralty tort jurisdiction has never depended upon the nature of the tort or how it came about, but upon the locality where it occurred."

Later decisions of the Supreme Court concerned with "ship-shore" accidents have indeed placed some weight upon maritime activity where the locality was borderline but have retained the same fundamental test. Thus, in *Atlantic Transport Co. v. Imbroke*, 234 U.S. 52, 58 L. Ed. 1208, 34 S. Ct. 733 (1913), the Court approves the holding in "*The Plymouth*" and at the same time emphasizes the maritime nature of the duties of the injured stevedore.

In *Grant Smith-Porter Ship Co. v. Rohde*, 257 U.S. 469, 66 L. Ed. 321 (1921), upon which appellee relies, the Court quotes from "*The Plymouth*" and approves the holding. Again the Court discusses the very limited field relating to "certain local matters" in which state laws may be applied if the duties of the injured party are not maritime in nature. We ask the Court to carefully consider the holding in the *Rohde* case. It is upon this authority and other almost identical cases that the Court in *King v. Pan-American*, 166 Fed. Supp. 136, and the appellee here place great reliance. Note that the injured Rohde was a workman engaged in construction of a vessel lying at the dock of a shipbuilding plant in the Willamette River. Can the facts of such a case bear any relation to the facts here present?

In 1959 the Supreme Court has again cited "*The Plymouth*" with approval. See *Kermarec v. Transatlantique*, 3 L. Ed. 2d, 550.

Thus, we see that, contrary to the argument of appellee, the application of admiralty law is dependent upon locality and not upon maritime employment. It seems to us to be fair to say that only in certain very limited and borderline cases has the law permitted the states to assume jurisdiction, and this only in the absence of maritime employment and also in the absence of any specific controlling Federal statute.

And finally, if any doubt exists that decedent in this case was not a "twilight zone" worker engaged in borderline employment of local concern, may we call the Court's attention to the plain words of the statute itself. Congress has certainly set aside any doubt as to the exact borders of the area in which the act shall be applied. This area is

"... on the high seas beyond a marine league from the shore of any state, or the District of Columbia, or the territories or dependencies of the United States. . . ." (Sec. 761, 46 U.S.C.A.)

4. SECTION 767 OF TITLE 46, U.S.C.A. DOES NOT BAR RECOVERY IN THIS ACTION.

Appellee devotes considerable argument to the claim that the above section, although not applicable to passengers, preserves state compensation laws as the sole remedy for air line employees.

We see no purpose in any lengthy discussion of the history of this section. Judge Goodman's opinion in the *Wilson* case (supra) referred to by appellee fully outlines the circumstances of the puzzling language. It seems to us that the District Court's analysis of its effect and importance as to the passenger in the *Wilson* case and its effect as to the employee in the *King* case (supra) are hardly consistent. If the interpretation of the section as a bar to a passenger's suit would raise "grave constitutional questions", why would not such a constitutional problem arise if the section is held to bar the suit of an employee?

In *Knickerbocker Ice Co. v. Stewart*, 253 U.S. 149, 64 L. Ed. 834, 40 S. Ct. 438, and in *Washington v. W. C. Dawson & Co.*, 264 U.S. 219, 68 L. Ed. 646, 44 S. Ct. 302, the Supreme Court twice declared invalid acts of Congress purporting to place waterfront employees under state compensation laws. Each of these decisions holds that such action by Congress is unconstitutional because of the plain intent of Article 3, Section 2 of the Constitution reserving exclusive control of admiralty matters to the Federal Government. If the Court refuses state jurisdiction in waterfront cases is it likely that it would permit similar jurisdiction on the high seas?

May we also note that several Federal decisions have considered actions by the dependents of seamen arising out of high seas accidents and brought under this act, and that nowhere does it appear that the Courts, or for that matter, the defendants, have raised the slightest question as to a bar imposed by section

767. These decisions, of course, are few in number. The High Seas Act was passed at about the same time as the Jones Act (46 U.S.C.A. 688), and only on rare occasions have a seaman's survivors, for one reason or another, invoked the High Seas Act instead of the Jones Act. The point is, their right to do so has not been questioned and the Courts have entertained such suits. See: *The Black Gull*, 82 Fed. 2d 758; *Decker v. Moore-McCormack Lines*, 91 Fed. Supp. 560; *Polland v. Seas Shipping Co.*, 146 Fed. 2d 875; *Pure Oil Co. v. Geotechnical Corp.*, 94 Fed. Supp. 866, affirmed 196 Fed. 2d 199; *The Four Sisters*, 75 Fed. Supp. 399.

5. APPELLEE'S DEFENSE OF LACK OF "DERIVATIVE LIABILITY" HAS NO BASIS IN LAW OR LOGIC.

In connection with this point, may we first refer to the same Federal decisions just cited to the Court relating to actions by seamen's dependents under the Death Act. Again, we can find no opinion or claim that such a defense exists under the High Seas Act.

Note that the Congress has included in the chapter (Sec. 766) a specific comparative negligence rule, and that the language of Sec. 761 includes the word "default" as well as "wrongful act" and "neglect".

Appellee in one breath urges that decedent Hudson, having been a member of the crew of an airship, rather than a vessel, is not entitled to the benefits of the Jones Act because he is not a seaman, and in the next breath that he must be held to the common law

admiralty rule that bars a seaman from recovery for injury resulting from negligent acts of his fellow crew members (except the master). These contentions seem slightly inconsistent.

Even assuming the premise to be true that Hudson, under common admiralty law, would have had no right of recovery for injury resulting from a careless act of a fellow servant, still no defense to this libel can be established. We call the Court's attention to the libel of appellant (Tr. pp. 5-6) wherein it is claimed that the plane was "negligently maintained". It is elementary that negligence causing an unseaworthy condition or a defective appliance, even though it is obviously the negligence of another servant which permits the appliance to become defective, does not bar recovery in admiralty.

This rule is clearly outlined in the Supreme Court opinion found in *Mahnich v. Southern S. S. Co.*, 321 U.S. 96, 88 L. Ed. 561, and see also *Seas Shipping Co. v. Sieracki*, 328 U.S. 85, 90 L. Ed. 1099, and *Pope & Talbot v. Hawk*, 346 U.S. 406, 98 L. Ed. 143, wherein it is held that the duty to supply safe equipment is non-delegable and absolute.

6. **THE DEFENSE OF ELECTION OF REMEDIES IS NO MORE VALID THAN IT WAS PRIOR TO THE DECISION IN THE HAHN CASE.**

The final defense asserted by appellee relates to election of remedy. Appellee concedes that until a recent ruling of the Supreme Court the decisions in

Western Boat Building Co. v. O'Leary, 198 Fed. 2d 409, and in *Newport News Shipbuilding & Dry Dock Co. v. O'Hearne*, 192 Fed. 2d 968 (4th Cir. 1951) would have prevented the defense of election of remedies. But appellee now states that these decisions have been overturned by *Hahn v. Ross Island Sand & Gravel Co.*, 3 L. Ed. 292.

A reading of this very brief opinion reveals that appellee's contention is completely unfounded, and that actually the decision makes even more strong the position of appellant. Here is another "twilight zone" case and the question was whether the employee of a sand and gravel company working on a barge in navigable water could sue under state law or was bound by the Federal Compensation Act. The Court held he could sue, but, in so holding, stated:

"Of course, the employee could not do this if the case were not within the 'twilight zone', for then the Longshoremen's Act would provide the exclusive remedy. Since this case is in the 'twilight zone', it follows from what we held in *Davis* that nothing in the Longshoremen's Act or the United States Constitution prevents recovery."

Here the Court is saying as clearly as it can be said that, except for "twilight zone" cases, admiralty matters are subjects solely and exclusively for Federal regulation. The California Commission had no power to grant an award because it had no jurisdiction, and appellant, under the authorities cited, may not be barred by her election of remedy.

CONCLUSION.

Appellant therefore again respectfully submits that the summary judgment in favor of appellee should be reversed with directions to the District Court to hear and determine the suit in admiralty.

Dated, Oakland, California,
July 8, 1959.

JOHN KRAMER,
SHERIDAN DOWNEY, JR.,
Proctors for Appellant.

United States
Court of Appeals
For the Ninth Circuit

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—vs.—

UNITED STATES OF AMERICA,

Appellant,

Appellee.

MERLE H. JOHNSON,

—vs.—

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Appellant,

Appellee.

Upon Appeal from the District Court of the United States
for the District of Montana

BRIEF OF APPELLEE

NAMES AND ADDRESSES OF ATTORNEYS

KREST CYR,

United States Attorney,
Butte, Montana;

WALDO N. SPANGELO,

Assistant United States Attorney,
Billings, Montana;

MICHAEL J. O'CONNELL,

Assistant United States Attorney,
Butte, Montana;

JACK H. BOOKEY,

Assistant United States Attorney,
Butte, Montana;

JOHN F. BLACKWOOD,

Assistant United States Attorney,
Billings, Montana.

Attorneys for Appellees.

FILED





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Butte, Montana;

JACK H. BOOKEY,

Assistant United States Attorney,
Butte, Montana;

JOHN F. BLACKWOOD,

Assistant United States Attorney,
Billings, Montana.

Attorneys for Appellees.

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BRIEF OF APPELLEE

STATEMENT OF JURISDICTION

These two civil actions were brought under the Federal Torts Claim Act (28 U.S.C.A. §1346) in the United States District Court for the District of Montana. The plaintiff-appellant was a resident of Montana, and the accident complained of happened in Montana. Civil Action No. 49 was the survival action instituted by the Administrator, and Civil Action No. 54, the wrongful death action, was brought

by the father to recover damages for the alleged wrongful death of the deceased child. The Court sat as the trier of the facts and the United States is the defendant-appellee. This appeal is taken from the final judgment entered in the consolidated actions on August 11, 1958, in accordance with 28 U.S.C.A. §1291.

STATEMENT OF THE CASE

The Bureau of Reclamation maintains an electrical substation at Forsyth, Montana. On July 4, 1955, Stanley Matt Johnson, a four-year old boy, apparently climbed over the eight foot tall east gate into the substation and, apparently after climbing upon a steel framework supporting three oil circuit breaker tanks with porcelain bushings extending above them to a height considerably higher than the top of the eight foot high fences, came into contact with the metal cap at the top of one of the porcelain bushings through which electricity was passing. The boy died four hours later as a result thereof. The cases were brought on the attractive nuisance doctrine, and the Trial Court held that plaintiff failed to establish that decedent's injuries and death were caused by any act of negligence on the part of the defendant.

SUMMARY OF ARGUMENT

The defense of the defendant-appellee to these consolidated actions was that it had exercised every reasonable precaution to provide such safeguards as would reasonably prevent injury to a child of ordinary and normal instincts,

habits and training. We will argue that the burden was on the plaintiff-appellant throughout the case to prove the negligence complained of, and that he failed to do so.

The appellee will in its argument offer Federal, Montana and other citations to establish the rule of law in connection with this case. The evidence will be briefly reviewed to show that the plaintiff-appellant failed to sustain the burden of proof imposed upon him.

The only real question involved in the trial of this case and in this appeal is whether or not there was any negligence on the part of the defendant-appellee. It will be argued that the evidence and testimony presented at the trial conclusively show that the defendant-appellant used a high degree of care to guard against an incident such as this. The view of the premises by the Trial Judge, the photographic exhibits and the testimony of the three expert witnesses in the electrical field will be emphasized in our arguments on the liability issue.

Each of the general specifications of error urged by appellant will be separately considered.

ARGUMENT

This case involves the liability of the United States under the Federal Torts Claims Act for an injury to a child trespasser. The alleged accident occurred in Montana and that state's law controls. *McGill v. United States*, 200 F2d 873. Montana adopts the view of the Restatement of Torts. *Nichols v. Consolidated Dairies*, 125 Mont. 460, 239 P.2d

740 (1952). Section 339 of that Restatement reads as follows:

“A possessor of land is subject to liability for bodily harm to young children trespassing thereon caused by a structure or other artificial condition which he maintains upon the land, if

- (a) the place where the condition is maintained is one upon which the possessor knows or should know that such children are likely to trespass, and
- (b) the condition is one of which the possessor knows or should know and which he realizes or should realize as involving an unreasonable risk of death or serious bodily harm to such children, and
- (c) the children because of their youth do not discover the condition or realize the risk involved in intermeddling in it or in coming within the area made dangerous by it, and
- (d) the utility to the possessor of maintaining the condition is slight as compared to the risk to young children involved therein.”

The Restatement does not develop in any detail what a land owner must do to avoid liability when he has a dangerous condition on his land, or, to put it another way, it is not clear whether a properly guarded dangerous condition is within the purview of the doctrine.

The above cited case, *Nichols v. Consolidated Dairies*, quotes with approval from the case of *Gates v. Northern Pacific Railway Company*, 37 Mont. 103, 94 Pac. 751, 755, where the majority opinion said:

“It is my judgment that when the owner or occupier of

grounds brings or artificially creates thereon something especially attractive to children, as shown by the nature of the thing itself and the fact that a child was, or children were, attracted to it, and leaves it so exposed that they are likely to come in contact with it, either as a plaything or an object of curiosity, and where their coming in contact with it or playing about it is obviously dangerous to them, the person so exposing the dangerous thing should reasonably anticipate the injury that is likely to happen to them from its being so exposed, and is bound to use ordinary care to guard it so as to prevent injury to them."

It would thus appear that in Montana under the *Gates* and *Nichols* decisions the defendant was only bound to use ordinary care to prevent injury to children.

The general view appears to be that an owner of land with a dangerous condition on it which he knows will attract children has a duty to prevent against probable danger, not against all possible harms. *James v. Wisconsin Power and Light Company*, 266 Wis. 290, 63 N.W. 2d 116 (1954); *Keep v. Otter Tail Power Company*, 201 Minn. 475, 277 N.W. 213 (1937). In *Kosson v. West Penn Power Company*, 293 Penn. 131, 141 Atl. 734 (1928), the Court declared at page 134:

"Parties are bound to guard only against what could reasonably be foreseen . . . it is possible someone falling from an aeroplane might come in contact with a live wire but no one would suggest against the necessity of guarding against such an occurrence."

Our first general argument is that the burden was on the plaintiff throughout the case to prove the negligence com-

plained of. We contend that the plaintiff not only did not carry this burden, but that they completely and utterly failed to introduce any testimony or evidence showing or tending to show negligence on the part of the Government. The only evidence in any way relating to this subject was the testimony that Stanley Matt Johnson was in fact electrocuted inside the Bureau of Reclamation substation at Forsyth, Montana. As a matter of fact or law, this is not sufficient to prove negligence on the part of the Government. There was no showing that a reasonable man in like circumstances would have done anything different during the time before the accident than was done by the Government. The expert witnesses, M. M. McIntyre, A. P. McDonald and Ray Ball, certainly did not give any testimony showing that they, or firms they were associated or acquainted with, would have taken any additional precautions on and before July 4, 1955. Mr. Joe Baugh, the only other witness from the electrical field, did not make any comments along this line. The rest of the witnesses were from Forsyth and testified as to other factual and related matters, but not as to the structure itself.

The most that can be said is that some evidence was introduced and testimony presented concerning the fence structure at the time of the accident. A great deal of this evidence and testimony was made superfluous by the fact that the Trial Court viewed the premises before rendering its decision (page 11, Judge Jameson's Opinion).

It seems that the Trial Court was asked to decide whether a given situation constituted negligence without being supplied any guideposts upon which to base its reasoning, other than very general statements of law. There was no showing that the fence and gates enclosing the substation, not being mechanically defective in any way, did not represent a high degree of care, commensurate with the danger, as would safely guard against any contingency that could reasonably be anticipated.

Foreseeability cannot be tested by what ultimately happens. Foreseeability should be tested, after an accident, to a certain extent at least, by those who work in the field of testing substations, whose career is bound up with success in providing such protection. That is why due weight should be given to members of the industry who testified that this is the way substation fences are built in this industry, and who provide assurances that such fences are not made with knowledge that they constitute potential dangers to trespassing children. The fact of the child's scaling the fence no more proves negligent construction or negligent planning of the protective facilities of this substation than the fact of a child being run over proves that the driver of the automobile was negligent. Not even a presumption of negligence is raised.

It is generally submitted that the following factors on the liability issue were determinative of the issue and that all of them favored the appellee. First is the fact that the

Trial Judge had an opportunity to view the premises after the testimony and with a full knowledge of the modifications that had been made (Opinion, page 1, line 18; page 11, line 9). He had an opportunity to appraise all of the circumstances surrounding this case and the testimony and exhibits in the light of his own view of the premises. The testimony (page 323, lines 10 to 22) gave him an understanding of the reason for the location of the substation at that particular place. He was able to see the location of the various homes in the area, the location of the M.D.U. substation and its pole rack and pipe rack, as well as to see the wooden box spoken of in testimony (page 85, lines 10-17) and referred to in appellant's brief (bottom of page 4, and top of page 5) and to see that it served a valid purpose within the substation (Tr. page 113, lines 11-25; page 114, lines 1-19) and had no possible connection with the deceased boy's ability to climb the oil circuit breaker framework. One factor not drawn out in the testimony that was gained by his view was the knowledge that there was no shortage of places for children to play in this area. There were uninhabited hills within a very short distance and uninhabited clear areas as well. The point being that the substation area was not a focal point upon which the neighborhood children descended to play. It was on the outskirts of town with large yards and ample undeveloped areas for playing, and, space-wise, more active games and gatherings were apt to be played and held elsewhere. The Trial Judge had an oppor-

tunity to get a true perspective of the fence and gate, as well as of the framework supporting the oil circuit breakers, the oil circuit breakers themselves, the porcelain bushings projecting upward from them and the caps and wires leading into these bushings. The various photographic exhibits make it apparent that the caps at the top of the bushings, where it is alleged the boy made the regrettable electrical contact, were considerably more elevated than the top of the fence, which was approximately eight feet. This height, protecting a point of danger, was an additional safety factor, and certainly something considered by the Trial Judge in his view of the premises, and something to be considered by this Court. He also had an opportunity to analyze any particular sound that might emanate from the substation.

Secondly, on the liability issue, are the various photographic exhibits showing the substation fence and the mechanisms contained therein. They show a well-painted and well kept-up appearance. There is nothing there that would appear to be susceptible of being taken for investigation by a curious youngster. Youngsters are natural collectors and attracted to dirt, discarded equipment and junk of all kinds, of which any parents' back yard is living proof. Here we have in the substation and the fence itself almost a clinical atmosphere of cleanliness and neatness. This is pointed out because that neatness and almost clinically clean atmosphere is to some extent a safety factor against young children inasmuch as it is symbolic of adult interest

in their minds, and suggestive, even at a very early age, that it should be left alone. Primarily, the photographic exhibits show the fence and gates from a standpoint of liability and it is our strong contention that they illustrate a high degree of care on the part of the United States of America to protect against unauthorized entry.

The third major item in this case on the liability issue is the testimony of the three expert witnesses, A. P. McDonald, Ray Ball and M. M. McIntire. These men represented more than 100 years experience in the electrical field (Tr. page 27, lines 21 and 22; page 319, lines 13 through 25; page 320, lines 3 through 11; page 336, lines 10 through 21; page 337, lines 9 and 10) in the western portion of the United States. They testified directly and by inference that based on their professional experience they felt this fence, and particularly the easterly gate of the substation, represented a high degree of care toward the public and fully and adequately guarded against possible unauthorized entry. It is important to note that Mr. Ball is presently in charge of and has the final decision to make as to whether substation fences in his own company are adequate to prevent unauthorized entry (Tr. page 340, line 9), and that Mr. McDonald had the same responsibility with possibly a larger organization (Tr. 320, lines 5, 6 and 7) until almost the time of the accident complained of.

Previous to the trial they were given the opportunity to see the Bureau of Reclamation substation at Forsyth, Mon-

tana, having knowledge of the changes that were made after this accident. The second fact established by the testimony of the three expert witnesses in this case, specifically Mr. McDonald and Mr. Ball, is that the construction of the fence and gates surrounding this substation met or exceeded the highest standards of their own companies, and other electrical companies and properties with which they were familiar (Tr. page 326, lines 9 and 10 and 22 through 25; page 341, line 5; page 343, lines 19 through 21).

Mr. Ball and Mr. McDonald testified (at the same approximate references in the transcript) concerning the specific types of enclosures used by the organizations they had been connected with, and as to the types of enclosures used by other agencies and firms with which they were familiar, so that the Trial Court had an opportunity to make its own decision as to whether the fences and gates were in fact comparable to the present situation.

The third point gathered from the testimony of the three expert witnesses, A. P. McDonald, Ray Ball and M. M. McIntire, is that none of them had ever heard of a child scaling a fence around an electrical substation and being electrocuted therein, either in their own companies or in other companies (Tr. 325, lines 12 through 15; page 331, lines 10 to 12; page 344, lines 5 to 9; page 347, lines 11 to 14 and lines 20 to 23; and, page 352, lines 2 to 4 and lines 9 to 16). This testimony is certainly important from the standpoint of foreseeability.

ARGUMENT ON THE SPECIFICATIONS OF ERROR URGED BY APPELLANT

The appellant urges as his first specification of error that the Trial Court was in error in failing to find the defendant negligent by its failure to install a 45° angled protection upon the gate as well as upon the fence, and that the Trial Court should not have allowed testimony to be admitted showing the industry standard of care.

We have heretofore presented general arguments on the liability issue based on the Judge's view, testimony and evidence in the case. We will now present our arguments based upon case law as it is developed.

In the *Gates* case (*Gates v. Northern Pacific Railway Co.*, 37 Mont. 103, 94 Pac. 751, 755) the Montana Supreme Court quotes at length from the "TURN TABLE CASE" (*Stout v. Sioux City and Pacific Railway Co.*, 2 Dill. 294, Fed. Cas. No. 13,504) which defines negligence as follows:

"negligence is the omission to do something which a reasonable, prudent man, guided by those considerations which ordinarily regulate the conduct of human affairs, would do, or doing something which a prudent or reasonable man would not do, under all the circumstances surrounding the particular transaction under judicial investigation."

The Montana Court quotes further:

"to find against the defendant you must find that it has been guilty of neglect, of a wrong, of a want of due and proper care in the construction of machinery of a dangerous character, and, so leaving it exposed, as before explained, that, as reasonable men, the officers of the road ought to have foreseen that an acci-

dent, happening as this happened, would probably occur, or be likely to happen."

It has been said:

"... *the Courts cannot make electric companies insurers of the safety of children* any more than of others or require of such companies, in the circumstances of their business, a degree of care, prudence, and foresight beyond that which careful and prudent men would exercise in such or like circumstances." (Emphasis supplied) *18 Am. Jr., Electricity*, §68.

The same citation in §69 says:

"Thus, if the injury occurs in a street or other public place, the circumstances must be very peculiar to relieve the electric company of liability; but if it occurs on the property of the power company, there must be peculiar circumstances to hold the company liable. The situations lying between these two extremes are governed by various shades of legal principle."

In a Wisconsin case the court says:

"An owner of land is required to foresee or anticipate probable harm to others; he is not required to guard against every possible danger to children or others." *James v. Wisconsin Power & Light Co.*, 266 Wis. 290, 63 N.W. 2d 116 (1954).

This seems to be the general view of the courts:

"Moreover, the rule of reasonable care must be considered *not* in the light of the accident which happened but with reference to that which ordinary prudence should have anticipated as likely to happen. The mere fact that an accident was avoidable does not prove that there was fault in not anticipating and providing against it." *38 Am. Jur., Negligence*, §32; *Johnson v. New York*, 208 N.Y., 77, 101 N.E. 691, 46 L.R.A. (N.S.) 462; *Newport News & O.P.Ry. & Electric Co. v. Clark's Adm'r* 105 Va. 205, 52 S.E. 1010, 6 L.R.A. (N.S.) 905, 115 Am. St. Rep. 868. (Emphasis sup-

plied).

Naturally there are situations (and electrical transmission line structures are undoubtedly among them) wherein a high degree of care is necessary to constitute ordinary care on the part of the person responsible. *Gilligan v. City of Butte*, 118 Mont. 350, 166 P. 2d 797; 38 *Am. Jur.*, *Negligence*, §32.

A 1955 case decided by the Supreme Court of Kansas seems to briefly state the proper standards of care to be applied in a situation such as the present case:

“For present purposes and in a summary and not exhaustive manner, it may be said that our cases recognize that a high degree of care is required in the furnishing and distributing of electricity, —the care exercised in installation and maintenance must be commensurate with the danger and provide such protection as will safely guard against any contingency that is reasonably to be anticipated; that a distributor of electricity has complied when he so maintains his distribution system and is not bound to safeguard against occurrences which cannot reasonably be expected or contemplated. It may be further observed that in determining whether the distributor has met *the degree of care required is not that safer devices and equipment than were used are in existence*, and it is proper to take into consideration the use by the distributor of methods, appliances and equipment customarily used in the industry, *but such use of customary methods, appliances and equipment is not, in and of itself, a complete defense but may be shown as demonstrating that the distributor used that degree of care which prudent men engaged in the industry would use under similar circumstances*. If by reason of circumstances as to location or other facts leading to the necessity for greater care than would ordinarily be required, the

distributor must make reasonable effort to adopt such appliances, methods and equipment as are commensurate with the increased hazard." *Murphy v. Central Kansas Electric Cooperative Association, Inc.*, 284 P. 2d 591 (1955). (Emphasis supplied).

Another case has said that while the general usage of electric companies furnishes a presumptive standard as to the care required, the presumption may be rebutted, *Jeffries v. Virginia Ry. & Power Co.*, 127 Va. 694, 104 S.E. 393. This further emphasizes the importance of knowing the customary and common practice in the industry.

A California case has said that an electric company was required:

"to use best materials and most approved methods of construction to prevent injury to property of others." *Holmes v. Southern Cal. Edison Co.*, 177 P.2d 32.

Any number of cases have laid down the rule that:

"conformity by defendant to general custom of power lines and rights of way does not excuse defendant unless the practice is consistent with due care." *Anstead v. Pacific Gas & Electric Co.*, 203 Cal. 634, 265 Pac. 487; *McCormick v. Great Western Power Co.*, 134 Cal. App. 705, 26 P.2d, 322; *Lim Ben v. Pacific Gas & Electric Co.*, 101 Cal. App. 174, 281 Pac. 634; *Polk v. City of Los Angeles*, 26 Cal. 2d 519, 159 P.2d 931; *Chase v. Washington Water Power Co.*, 111 P.2d 872.

The appellant has cited a 1957 New Jersey case, *Wytupeck v. City of Camden*, 136 Atlantic 2d 887. That case involved several factors that distinguish it from the present situation. The City of Camden owned 14 acres of land used for the maintenance and operation of 5 wells and water pumping stations. The wells were enclosed in brick well houses or

pumping stations

“and each of the well pumps was equipped with an outside bank of 3 transformers, to reduce the voltage of high power lines to that required for the operation of the well pumps. The transformers were adjacent to the well houses, enclosed by an 8-foot high steel ‘wire mesh or chain link fence with 2 inch diamond shaped openings, commonly referred to as a “cyclone” fence’; the fences were built on a ‘concrete platform supporting the transformers as well’; the ‘top of the fence had the sharply pointed ends of the wire projecting upwards’; and on ‘each side of the fence ever since its erection were signs with 6 inch letters reading “DANGER—HIGH VOLTAGE” ’; the chain link fence had a ‘top rail’ and ‘2 inch mesh.’ ” *Wytupceck v. City of Camden, supra*, at page 890.

This discussion of the fence is somewhat inconclusive in that the inference is raised that part of the fence may have had a top rail whereas other parts may have had only the sharply pointed ends of the wire projecting upwards. It is pointed out that the fence did not have a barbed wire extension on top of the wire mesh fence either vertically or at an angle.

The second differentiating circumstance is that the boy was injured when he placed his leg over the top of the fence preparing to descend into the enclosure. Contact was made with an uninsulated wire which was only 10 to 15 inches from the top of the fence. A further distinguishing feature, a violation of the Electrical Safety Code, by the uninsulated wire, was brought out in the testimony of one witness at page 892:

“And the ‘absolute minimum’ distance for ‘voltages between 3,000 and 6,000, the horizontal clearance to apply there is given (by the Electrical Safety Code prepared by the United States Bureau of Standards) as 3 feet, six inches,’ . . .”

The appellant emphasizes the testimony of one of the expert witnesses on page 892 wherein he is quoted as follows:

“The mounted barbed wire offset arms had been ‘standard’ and ‘accepted practice of the whole industry’ for more than 30 years and ‘was one of earlier things that was considered in electric light and power industry, safety or substations.’”

A 1944 Arizona decision, *Holbrook Light and Power Co. v. Gordon*, 61 Ariz. 256, 148 P.2d 360, said:

“a safe, or at least a safer, way of preventing persons from entering transformer stations would be to encircle the top of the fence with barbed wire so that a person approaching from below would have to overcome such obstructions—a most difficult thing to do. It is in evidence that some electric companies have adopted that method of safety.”

This quotation would make it apparent that the Arizona Supreme Court in the western United States was not in agreement with the expert witnesses relied upon in the *Wytupeck* case, *supra*.

The evidence in the *Wytupeck* case showed that the 14 acre tract had long been used as a play and recreation ground by adults and children of all ages, and this is certainly another distinguishing feature.

The testimony shows the reason why industrial fences

such as the one surrounding this substation have straight posts at the gates and the 45° barbed wire projection outward at the top in between those places. (Tr. page 333, lines 21 to 24; page 334, lines 11 to 13). The barbed wire must be drawn tight, and normally this can be done better by using straight poles at the points of pressure. If you try to put pressure on an angle extending out from a pole, you are going to turn the pole and lose the pressure or tension on the wire. It is the same theory as bracing the corner poles when you are fencing. If you lose the tension in the 3 barbed wires running above the mesh fence, they might as well not be there.

The second general specification of error raised by appellant is that the Court erred in failing to hold that the addition of a barrier over the top of the east gate was evidence of negligence.

Paragraph XI of the Complaint in Civil No. 54 and Paragraph XIII of the Complaint in Civil No. 49 is as follows:

“That immediately after the accident and death of the plaintiff’s minor son, the defendant caused the east and west gates of said enclosure to be equipped with the same type of three strand barbed-wire barrier and overhang as were present on the balance of the enclosure prior to and on the death of plaintiff’s minor son’s death.”

While the Montana Supreme Court has not had occasion, so far as we can find, to pass on the question, every jurisdiction but one which has passed on it has supported the general rule, announced as follows in 65 C.J.S., *Negligence*,

§225, page 1042:

“Evidence of the subsequent acts of one whose negligence is alleged to have caused or contributed to an accident or injury ordinarily is inadmissible to show antecedent negligence, although in a proper case, such evidence may be admissible for other purposes, as where evidence of subsequent acts, which by their nature tend to contradict other evidence as to the act or condition in question, is admissible in rebuttal.”

The first edition of *Corpus Juris* (45 C.J., *Negligence*, §1232) subjoins citations occupying about two solid pages of six-point type, from the following Supreme Courts:

Alabama, Arkansas, California, Colorado, Connecticut, District of Columbia, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, New Hampshire, New Jersey, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, and the United States Supreme Court—forty jurisdictions in all. The mass of authority is of too great bulk to justify detailed discussion.

The reasons which are chiefly set forth may be summarized by the statement that the action of one accused of negligence in repairing or improving an installation in or about which an accident has happened, has no legitimate function to raise an inference of pre-existing negligence; and that public policy would be offended by penalizing such person

for his effort to prevent similar accidents in the future.

Early decisions in Minnesota and Pennsylvania adopted the contrary rule, but in both said states such rulings were overruled. The United States Supreme Court in *Columbia Ry. v. Hawthorne*, 144 U. S. 202, quoted with approval the later Minnesota case of *Morse v. Minneapolis Ry.*, 30 Minn. 465, 16 N.W. 358, and also *Hart v. Lancashire Ry.*, 21 L.T.R. (N.S.) (Eng.) 261, 263, as follows:

“The true rule and the reasons for it were well expressed in *Morse v. Minneapolis & St. L.R. Co.*, above cited, in which *Mr. Justice Mitchell*, delivering the unanimous opinion of the Supreme Court of Minnesota, after referring to earlier opinions of the same court the other way, said: ‘But, on mature reflection, we have concluded that evidence of this kind ought not to be admitted under any circumstance, and that the rule heretofore adopted by this court is on principle wrong; not for the reason given by some courts, that the acts of the employees in making such repairs are not admissible against their principals, but upon the broader ground that such acts afford no legitimate basis for construing such an act as an admission of previous neglect of duty. A person may have exercised all the care which the law required, and yet, in the light of his new experience, after an unexpected accident has occurred, and as a measure of extreme caution, he may adopt additional safeguards. The more careful a person is, the more regard he has for the lives of others, the more likely he would be to do so, and it would seem unjust that he could not do so without being liable to have such acts construed as an admission of prior negligence. We think such a rule puts an unfair interpretation upon human conduct, and virtually holds out an inducement for continued negligence.’ 30 Minn. 465, 468.

"The same rule appears to be well settled in England. In a case in which it was affirmed by the Court of Exchequer, Baron Bramwell said: 'People do not furnish evidence against themselves simply by adopting a new plan in order to prevent a recurrence of an accident. I think that a proposition to the contrary would be barbarous. It would be, as I have often had occasion to tell juries, to hold that, because the world gets wiser as it gets older, therefore it was foolish before.' *Hart v. Lancashire & Y. R. Co.* 21 L.T.R. (N.S.) 261, 263."

Kansas is the lone jurisdiction at variance with the rule of inadmissibility, and then that court has whittled down the scope of admissibility to hold, in *White v. Berkson Bros.*, 187 Pac. 670, that such proof is of itself not enough evidence of negligence to take a case to the jury. We quote from the last cited case as follows:

"2. As soon as the accident occurred a change was made in the walk by raising it to its old position on a level with the doorsill. The plaintiff urges that this in itself was competent evidence that the defendant had been negligent in suffering the existence of the step. The great weight of authority is against the admission of evidence that changes or repairs were made after the accident, for the purpose of showing negligence in permitting the former condition to exist. 2 Wigmore on Evidence, §283; 2 Jones on Evidence (Horwitz Ed.) §288; 20 R.C.L. 179, 180. The rule allowing the admission of such evidence has been abandoned in nearly or quite all the jurisdictions outside of Kansas in which it was at one time recognized. Note 32 L.R.A. (N.S.) 1127, 1134. Here, however, it remains in force. *Howard v. Osage City*, 89 Kan. 205, 132 Pac. 187. The admission of such evidence can hardly be harmful in itself, and in some situations it may be helpful, as aiding in the solution of an existing issue of fact. But

where, as in this instance, there is otherwise no basis for submitting the question of the defendant's liability to the jury, the lacking ingredient cannot be thus supplied. The employer is not bound to adopt the safest possible construction, and if, after an accident, he sees fit to change a reasonably safe arrangement into a still safer one, he cannot merely by that act be subjected to a liability which would not otherwise exist."

The last sentence appears to be an admission by the court that reason and authority are both against the Kansas rule.

There are two Montana cases wherein evidence of a changed condition after an accident has been allowed, not for the purpose of proving negligence, but for the purpose of throwing light upon the condition of the premises at the time when the injury occurred. In *Titus v. Anaconda Copper Mining Company*, 47 Mont. 583, 133 Pac. 667, an action charging negligence as a result of a defective condition of a machine, our Court said:

"It is elementary that evidence of repairs or improvements is not evidence of prior negligence. The plaintiff assumed the burden in this instance of showing (a) that the bracket was out of repair at the time he was injured, and (b) that such condition was due to the defendant's negligence. While evidence of the condition of the bracket on the day following the injury would not tend to prove negligence, it might throw light upon the condition of the bracket when the injury occurred, and for this purpose the evidence was admissible."

In *Pullen v. City of Butte*, 45 Mont. 46, 121 Pac. 878, the City was charged with negligence in connection with a defective sidewalk. The Court said:

"It is a general rule that the negligence which renders a person responsible for an accident depends upon what he did and knew before the accident, and such negligence must be established by facts and circumstances which preceded it, and not by acts done after its occurrence."

Some testimony had been allowed in the case showing a subsequent repair of the sidewalk but the trial court limited it to the purpose of throwing some light on what the condition was at the time of the accident.

It is therefore submitted that the Montana and general rule apply in this case. The appellant tries to isolate the present situation from the general rule by a continuation of his argument that to have a 45° barbed wire overhang over part of the fence structure is an admission that it is the proper standard of care, and should therefore have been continued on the gates.

Your attention is invited to the testimony of the Montana-Dakota Utilities Co. serviceman, Joe Baugh, in connection with the modifications made to the fence surrounding the Montana-Dakota Utilities Company substation after this accident, wherein he admitted to the view that the modifications made after the accident made the fence easier to climb over because of the additional hand holds supplied (Tr. page 121, lines 2-11). It is submitted that the contraption placed over the gates of the Bureau of Reclamation substation at Forsyth, Montana, after this accident is subject to the same comment.

Appellant's third major specification of error is that the Court erred in allowing the defendant to amend its answer and introduce testimony on the issue whether the father of the boy had been contributarily negligent in allowing him to play outside of the yard.

The United States of America's "Notice of Motion to Amend Answer" filed on January 13, 1958, in Civil No. 54 proposed to amend the answer by adding a new paragraph 8 to its answer, which was set out to read as follows:

"8.

That prior to July 4, 1955, on or about July 5, 1955, at the time of the accident complained of, the plaintiff, as a parent, was negligent in failing to exercise ordinary care in protection of the minor child and that such negligence was a proximate and contributing cause of the death of said minor child."

The law recognizes the duties of parents to exercise ordinary care in the protection of their minor children. A 1945 California case discusses this as follows:

"The conduct of small children is unpredictable and their propensity to wander from their premises and into the streets is a matter of common knowledge. *Springer v. Sodestrom*, 54 Cal. App. 2d 704, 129 P2d 499. Parents are therefore chargeable with the duty of exercising ordinary care in the protection of their minor children. *Seperman v. Lyon Fire Proof Storage Company*, 97 Cal. App. 654, 275 P. 980; *Healy v. Market Street Railway Company*, 41 Cal. App. 2d 733, 107 P2d 488. Where the failure of the parents to

exercise such care proximately causes or contributes to the injury or death of their child the action of the parents for damages is thus defeated. *De Nardi v. Palanca*, 120 Cal.App. 371, 8 P.2d 220; *Seperman v. Lyon Fire Proof Storage Co.*, supra." *Agdeppa v. Glougie*, 71 Cal.App. 2d 463, 162 P.2d 944, 945.

The case law on contributory negligence by a beneficiary is discussed in 25 *Corpus Juris Secundum*, *Death*, Section 46, *Contributory Negligence*, at page 1141, 1142 and 1143. We find no Montana case cited, but the text says under subsection b:

"Contributory negligence of a beneficiary is generally a defense to an action for death brought by or for such beneficiary, although there is authority to the contrary."

In California the negligence of one parent bars recovery by the other parent or by the parents for the death of a child. *Dull v. Atchison, Topeka & S.F. Ry. Co.*, 27 Cal. App. 2d 473, 81 P.2d 158. Idaho and Washington seem to accept the theory of contributory negligence by the beneficiary as a defense. A Wisconsin case, *Hansberry v. Dunn*, 230 Wis. 626, 284 N.W. 556, apportioned the damages to compensate for the negligence of only one of the parties.

Appellant's contention is aimed at the Trial Court's allowing the amendment of the answer, but it is perhaps worthwhile to note that substantial evidence was presented on this rather difficult subject. The city police in Forsyth were involved with the Johnson children on three occasions and at least two other situations were shown by the testi-

mony of Mr. Robert H. Kerr. The strongest testimony on the question of whether the parents were overly lax in supervising their children, and specifically Stanley Matt Johnson, and whether they enjoyed a reputation for such a course of conduct, is best shown by the testimony of the Forsyth Chief of Police, Paul Fourtner. He testified that on one occasion he told Mrs. Johnson "the next time I was going to do smething about it" (Tr. 296, lines 19 and 20), and also that he went to the plumbing shop where the father worked and discussed the problem with him, and suggested he put up a fence to keep his children home and presumably out of danger (Tr. 297, lines 13 and 14; page 298, at lines 19, 20 and 21). These remarks suggest they were based on more than a couple of isolated contacts, but rather that the ramblings of the deceased child were a matter of common knowledge by the authorities and others in Forsyth.

The fourth major specification of error urged by the plaintiff-appellant is that the Court was in error in denying the plaintiff the right to have access to the statements taken by the FBI agent from the doctor and nurse attending the child.

Oral arguments were had on the motion for the production of these statements, and the Court is referred to pages 9, 10 and 11 of the trial transcript commencing with line 10 on page 9 and ending with line 8 on page 11 for the opposing argument to the granting of this motion.

The fifth major specification of error is the contention that the Court was in error in denying the plaintiff's motion to re-open the case, and in denying the plaintiff's motion for a new trial.

Barron & Holtzoff discuss Rule 59 of the Federal Rules of Civil Procedure as it applies to newly discovered evidence in Section 1305, on page 238 of Volume 3, of *Federal Practice and Procedure with Forms, Rules Edition*. Their statement on newly discovered evidence reads as follows:

"Newly discovered evidence to afford ground for a new trial must be evidence of facts existing at the time of trial, of which the moving party was excusably ignorant. The movant for a new trial must show diligence in discovering such evidence. *He is required to rebut the lack of presumption that there has been a lack of diligence.* Newly discovered evidence must be admissible and probably effective to change the result of the former trial. *Newly discovered evidence which would merely affect the weight and credibility of the evidence or witnesses is no ground for a new trial unless it clearly appears that harmful error occurred at the trial. Hearsay testimony is no basis for seeking a new trial.*" (Emphasis supplied).

Another reference in 39 Am.Jur., New Trial, §190, says:

"To entitle a party to a new trial on the ground of newly discovered evidence, *the motion should set forth the names of the witnesses who are expected to testify to the alleged new matter*, show what the evidence is, so that the Court may be able to judge of its sufficiency, and, also, state such facts as will enable the Court to determine the question whether reasonable diligence was exercised. General averments as to diligence are not sufficient; the facts should be set out so as to neg-

ative fault on the part of the movant.” (Emphasis supplied).

The same citation in §198 on page 197 reads:

“In view of the temptation to obtain a rehearing after an adverse verdict . . .” (Emphasis supplied).

It would appear that in this case the attorneys for the plaintiff may have become more diligent after the adverse decision than the record shows them to have been prior to that time.

American Jurisprudence has this to say regarding the granting or the refusal of the application for a new trial in *39 Am. Jur., New Trial*, §201, at page 199:

“A motion or other application for a new trial is directed to the sound judicial discretion of the trial court.” (See also *Pittsburgh C. & St. L.R. Co. v. Heck*, 102 U.S. 120, 6 L.Ed. 58.)

A 1938 Federal Case in the District Court for the District of Connecticut, *Schlick Dry Shaver, Inc. et al. v. General Shaver Corporation, et al.*, 26 F.Supp. 190, 191, discusses the grounds for a new trial and says:

“It must appear, in order that a new trial may be granted upon the ground of newly discovered evidence, (1) that the evidence has been discovered since the trial; (2) that it could not have been discovered before the trial by the exercise of reasonable diligence; (3) that it is material in its object, and such as ought on another trial to produce an opposite result on the merits; and, (4) that it is not cumulative, corroborative or collateral.”

The Fifth Circuit Court of Appeals in a 1948 case has dealt with time as an element of diligence. The case is cited

as *Pasotex Pipe Line Co. v. Murray*, 168 F.2d, 661. One of the grounds for a new trial was newly discovered evidence, in that a former husband of the plaintiff was located after the trial and gave proof of a prior injury. The Court said:

“Appellant complains that in spite of not knowing that Atkins could throw light upon the disputed injury, it had used due diligence and care to find him but had been unsuccessful until after the trial. With this last, we cannot agree. The accident occurred in January, 1946, and the second trial was concluded on September 22, 1947. Mr. Atkins had lived in Houston and worked for the same company for eight years or more. It should have been a simple matter, within a year and eight months, to get his correct name and to trace him. We think appellant’s failure to do so constitutes a lack of diligence.”

About two and one-half years elapsed between the accident in the present case and the trial. This is considerably longer than the year and eight months in the *Pasotex* case. Almost any study of the merits of the case would suggest that the safety measures adopted by other companies in the general area would be of some evidenciary value. In the *Pasotex* case they were looking for a witness without knowing he had any relevant information, and here they were looking for information from readily available sources that they should have known might have been valuable to their case. It would seem that under the rule adopted in the Fifth Circuit, the necessary diligence would be lacking in support of the motion in this case.

Barron & Holtzoff, supra, indicates that it is necessary

to rebut the presumption that there has been a lack of diligence. It is possible to do a great deal of investigating in a period of two and one-half years, and it is submitted that the presumption of a lack of diligence is strong in this case.

The defendant-appellee presented three expert witnesses in connection with the defense of this action, though Mr. M. M. McIntire was also called by the plaintiff-appellant. The same type of evidence produced by the defense was certainly available to the plaintiff. The Trial Court situated in Billings, Montana, where the trial was held might have taken note of this fact in its consideration of the case. It is not contended that testimony along these lines would have been controlling or conclusive, but it would certainly have been relevant and a guide-post for the Court to consider.

It is our contention that, irrespective of the question of due diligence, the motion to re-open the trial was not sufficient in that it failed to state the name or names of the witnesses they proposed to use, who the operator of the substation or substations referred to in the affidavit were on July 4, 1955, whether as a matter of fact such safeguards were in use on July 4, 1955, and where they are located. The affidavit was made by one of the distinguished counsel for the plaintiff-appellant, Franklin S. Longan. Any testimony he could have given as to the condition of these substations on July 4, 1955, would not have been the best evidence, but would have been hearsay, and inadmissible. It can thus be seen that the affidavit and the motion which it

supported were insufficient, in that they did not set forth with definiteness any proposed evidence that could have produced an opposite result to the trial. It should further be pointed out that the affidavit did not state that the same type of gates were involved, or gates for the same purpose, as those in use at the Forsyth substation on July 4, 1955.

CONCLUSION

In conclusion it appears that the determining factor on the question of liability is the sufficiency of the fence at the gate as constructed on July 4, 1955, as a safeguard against the entry of young children and particularly the decedent.

The Trial Court's view of the premises and adjacent areas would be enough alone to support the judgment appealed from in this action. It is not contended that the Trial Court viewed the premises either from the standpoint of a heedless infant or of a child having the ability to read the warning signs, but rather that the Court viewed the premises from the standpoint of a reasonable man taking into account all of the facts and circumstances shown by the evidence to have existed on July 4, 1955, and thereupon reaching the conclusion that *the defendant had exercised due care under the circumstances.*

The evidence showed a well constructed, well kept up substation and fence; that the gates met or exceeded the safety standards of the industry; and, that they represented a high degree of care toward children in general and the deceased child in particular.

It is urged that based upon the evidence and the law, the lower Court's Opinion, Findings of Fact, Conclusions of Law, and Judgment are substantially supported and the Judgment should be affirmed.

Respectfully submitted,

KREST CYR,
United States Attorney,
Butte, Montana;

WALDO N. SPANGELO,
Assistant United States Attorney,
Billings, Montana;

MICHAEL J. O'CONNELL,
Assistant United States Attorney,
Butte, Montana;

JACK H. BOOKEY,
Assistant United States Attorney,
Butte, Montana;

JOHN F. BLACKWOOD,
Assistant United States Attorney,
Billings, Montana,
Attorneys for Appellees.

No. 16351 ✓

United States
Court of Appeals
For the Ninth Circuit

KIM BROS., a Partnership,

Appellant,

vs.

L. A. HAGLER,

Appellee.

Transcript of Record
In Two Volumes

Volume II
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Appeal from the United States District Court for the
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FILED

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Southern District of California
Northern Division.**



(Testimony of Lyle Adrian Hagler.)

Q. (By Mr. Shepard): This is in 1949, November 14th, and this is your signature?

A. Yes; that is mine.

Mr. Shepard: We will offer this.

The Court: It may be received.

The Clerk: This will be 10.

(The agreement referred to was marked as Plaintiff's Exhibit 10, and was received in evidence.)

Mr. Shepard: That is all the questions I have.

The Court: All right. Anything further from this witness?

Mr. Houk: We have one question.

The Court: Let's see if counsel is finished?

Mr. Shepard: I am finished, your Honor.

The Court: All right. [249]

Redirect Examination

By Mr. Houk:

Q. Mr. Hagler, just one or two more questions, I would like to ask you, that is, directing your attention to the testimony concerning this tree on the Hunter property, was there more than one tree on which there was any fruit involved or any sports involved? A. No; just one tree.

Q. Just one tree?

A. Only one I ever seen in there.

Q. As far as you were concerned there was never any other tree? A. No; never was.

Mr. Houk: That is all.

The Court: All right, step down.

The Witness: What about the records?

The Court: They are yours; they remain yours. They are still your records. You will need them for income taxes.

All right, gentlemen, we have reached a good stopping point. Just to give me an idea, because I have to plan week ends, because I have matters to do in Los Angeles, how much more time will you consume to conclude your side of the case?

Mr. Griswold: I think tomorrow will take care of the substantial portion of the evidence. It depends on the [250] cross-examination.

The Court: Both of you have been very moderate.

Mr. Griswold: There is one point where we might save some time. There are certain packing house records from the Tagus Ranch, and also from the Barr Packing Shed; we can subpoena the records although our expert has gone through the accounts in question and has taken the information necessary for his testimony.

The Court: Well, under the rules of the Ninth Circuit any person, when it comes to books of account, who has seen them can give summaries. That is the rule of the Ninth Circuit, and applies to bank books or anything of that character, and a person who has done that. The only materiality of the inquiry is as to ripening time. The other matters are matters which relate merely to an accounting, which, as I have told you, I am not going to take,

gentlemen. I am going to decide first if there is infringement. If I decide there is, then we will provide for the future accounting after the judgment becomes final, but at the present time I allowed counsel to go into the details a little more fully, though towards the end he omitted a lot of dates, which became absolutely immaterial.

Mr. Griswold: This will go to differentiation in varieties, your Honor, this testimony.

The Court: Well, if he is an expert, he can testify [251] as to his knowledge of ripening times of various fruits.

Mr. Griswold: I think that is sufficient, your Honor.

The Court: Then if he is asked to give the basis for his conclusion, he may state, but he doesn't have to produce the books. He may say he got it from an authority. In all expert testimony a man may refer to the things he has read and the things he has seen. I tried a malpractice case and two of the doctors testified to the fact that a certain type of fracture may occur in a seizure of an epileptic type; one man testified to his own knowledge, the other man testified that he had read it in the literature, and that is permissible on the part of an expert.

I can't rule in advance, I don't buy a pig in a poke, you know that expression, but so far as I know at the present time, I don't think we will have any problem.

Mr. Griswold: I believe by tomorrow the sub-

stantial portion of the defendant's case will be in, so that Friday, it would seem to me, we should finish.

The Court: Friday? I don't know what rebuttal counsel will have.

Mr. Shepard: I would go along with that estimate, your Honor. I think we can finish Friday.

The Court: Well, I like oral argument, gentlemen. I want you to argue right after, while the matter is fresh in my mind. The only reason I am asking is because if it [252] goes over to next week we will have a problem, because we have a holiday, you see; Tuesday is a holiday. We could hold court, if necessary, Monday, but Armistice Day is one of the few days we have. This is a government calendar, you see we only have Armistice Day and Thanksgiving Day. Election Day, yesterday, wasn't a holiday for us. So I am merely trying to find out because I have to plan to fly to Los Angeles over the week end and it all depends on when we finish what plane I can take. There is a plane at 5:55 which makes good connections, and if we finish Friday, if I finish in time to take that plane, I will be in good condition. However, if we don't, we will go to Monday, because I have cleared my calendar. I had a calendar in Los Angeles on Monday, but I cleared it because I anticipated this case would take longer, but with your co-operation we are going to reduce it from seven days to four days.

Mr. Shepard: My opinion would be we would

probably finish Friday, and I think by tomorrow night we can positively tell you whether you can get on that plane.

The Court: All right, gentlemen. We are doing very well.

(Thereupon, at 5:00 o'clock p.m. a recess was taken until 10:00 a.m., November 6, [253] 1958.)

November 6, 1958—10:00 A.M.

The Court: Cause on trial.

The Clerk: 1793, Kim Brothers, a partnership,
v. L. A. Hagler.

Mr. Griswold: Ready, your Honor.

The Court: Proceed, gentlemen.

Mr. Griswold: Mr. Byrnes.

The Court: Counsel have informed me that they want to show some slides, so we have them set up with a screen so they may be shown at the proper time. We will darken the room as much as we can. It is rather hard to make it entirely dark, but we will try by dimming all the lights. All right.

DAVID J. BYRNES, JR.

called as a witness by defendant, having been first duly sworn, was examined and testified as follows:

The Clerk: Just state your full name, please.

The Witness: David J. Byrnes, Jr.

Direct Examination

By Mr. Griswold:

Q. Your name is David Byrnes? A. Yes.

(Testimony of David J. Byrnes, Jr.)

Q. You live in Visalia, California?

A. I do. [256]

Q. Your address?

A. 2649 West Iris.

Q. You are familiar with the Hunter orchard located in Visalia, Tulare County?

A. I am.

The Court: If you will lean back in your chair, Mr. Byrnes, your voice will carry more. That's it. Go ahead.

Q. (By Mr. Griswold): Am I correct, you had occasion to visit that orchard on September 11, 1958?

A. I did.

Q. And the purpose was to do what?

A. To photograph the tree in question.

Q. And that is the discovery Red King tree?

A. Yes.

Mr. Shepard: Object to the question, your Honor, and move the answer be stricken, on the ground of "the discovery tree." Obviously there is no foundation for this man to know whether or not he photographed the discovery tree except by hearsay.

The Court: Well, I think it should be pointed out this is tied to the statement he pointed it out to Mr. Byrnes.

Mr. Griswold: It is only for identification.

The Court: All right. The tree was pointed out to you as being the discovery tree by Mr. [257] Hagler?

(Testimony of David J. Byrnes, Jr.)

The Witness: Yes, sir.

Q. (By Mr. Griswold): Mr. Byrnes, I show you a photograph of a tree, and on the back showing the date September 11, 1958, Ward's Studio, and with some writing, "DJB present during photog." Is that your writing?

A. Yes; that is.

Q. I will ask you if you were present when this photograph was taken? A. I was.

Q. And is it a correct representation of what you saw there? A. Yes.

Q. And this tree was located in whose orchard?

A. Mr. Hunter's orchard.

Q. And that is located where?

A. I would say northeast of the Hagler orchards and holdings.

Q. And this tree had been pointed out to you prior to this date? A. Yes; it had.

Q. On more than one occasion?

A. No; only on one occasion.

Q. And do you know which tree in the Hunter LeGrand orchard this tree was? [258]

A. Yes.

Q. So you could identify it?

A. Yes; I could re-identify it immediately.

Q. And which tree is it?

A. This is the tree which had the Red Grand—the Red King sport on it, and which produced the Red King nectarine in question in this case.

Mr. Griswold: We will offer in evidence this photograph.

(Testimony of David J. Byrnes, Jr.)

The Court: It may be received.

Mr. Shepard: May I have voir dire on the photograph, your Honor.

The Court: I don't allow that to be done. If you want to, I will reserve ruling until you have cross-examined. I don't like to break the continuity of the examination.

Mr. Shepard: I would appreciate a reservation on the ruling, your Honor.

The Court: I will reserve the ruling until your cross-examination is completed.

Q. (By Mr. Griswold): Can you state which portion of the tree is shown in the photograph, Exhibit——

The Clerk: That will be B.

(The photograph referred to was marked as Defendant's Exhibit B, for identification.)

The Court: B for identification only. Just mark it on [259] the back, B for identification.

Q. (By Mr. Griswold): Do you have in mind the question, Mr. Byrnes?

A. No; will you repeat it?

Q. Which portion of the tree is depicted in this photograph?

A. This is viewing the tree from the east, and we are looking here at the trunk, and we can see it branching off to the left, this large forked branch or trunk, I don't know what you would call it, from which the Red King nectarines were produced.

(Testimony of David J. Byrnes, Jr.)

Mr. Griswold: No further questions.

The Court: All right. Cross-examine.

Cross-Examination

By Mr. Shepard:

Q. May I ask your occupation, Mr. Byrnes?

A. I am the accountant for Mr. Hagler, and I also have a poultry farm of my own.

Q. You saw this tree once?

A. I saw it twice.

Q. Twice?

A. Once prior to this bit of photography.

Q. When did you see it on the prior occasion?

A. With Mr. Braun.

Q. And about what time was that? [260]

A. May I correct myself?

Q. Yes.

A. I believe I have seen it three times, now that I think about it.

Q. Will you tell us——

The Court: Just a minute. Go ahead, give the dates.

The Witness: I visited with Mr. Clinton Hagler when we collected some samples of the branches, the leaves, and that was the time I think I had in mind.

Q. (By Mr. Shepard): And approximately when was that?

A. I would say in the latter part of August, or early September.

(Testimony of David J. Byrnes, Jr.)

Q. Of this year? A. Yes.

Q. And then did you visit it on another occasion?

A. Yes; on September 11th, with the photographer who took this picture.

Q. Now, then, Clinton Hagler pointed it out to you? A. Yes.

Q. And then you visited it subsequently with the photographer?

A. Yes. I am trying to remember whether or not I did visit it with—yes, that's right, with the photographer. I misunderstood you there. [261]

Q. And do you know the difference between Red Kings and LeGrands?

A. I believe I would. I believe I do.

Q. Did you see any Red Kings on the tree, so-called Red Kings at the time you visited the place?

A. No.

Q. Did you see any LeGrands on either occasion? A. No.

Q. Would you be able to identify the varieties on that tree without the fruit on the tree?

A. Without the fruit?

Q. Yes. A. I doubt it.

Q. And so you didn't see the tree with fruit on it? A. No.

Q. So you would not testify here in court that you have personal knowledge of your own observation as to what varieties are on that tree?

A. No. My purpose here is to identify the photo-

(Testimony of David J. Byrnes, Jr.)

graph only, that it was of this particularly named tree.

Q. Yes. But you mentioned that the photograph contained the Red King branch?

A. Yes; simply by identification as conveyed to me by others.

Q. And that testimony was hearsay, somebody else told [262] you that? A. Yes; it was.

Q. And where is the tree located of which the picture was taken?

A. I would say on the east side of the Hunter orchard, the second one down from the north, and there is kind of a sand pit which breaks into the orchard there.

Q. Now, do you keep Mr. Hagler's records?

A. I do.

Q. And were you the one who made up these records as to the time of picking and packing of the various varieties?

A. I don't know which ones you refer to, but I did make up some, yes.

Q. There were some Mr. Hagler produced in court here, on long yellow sheets?

A. Yes; those I made up, some on long yellow sheets.

Q. Were you aware of the fact that in 1958 his Early LeGrands and his Regular LeGrands were run together on one sheet? A. In 1958?

Q. Yes. A. Yes; I guess they were.

The Court: Aren't you in error?

(Testimony of David J. Byrnes, Jr.)

Mr. Shepard: Pardon me?

The Court: Aren't you in error? '57 were [263] mixed up.

Mr. Shepard: I believe——

The Court: They were run on the same sheet but they clearly indicated what they were. They were not mixed up. The year before he said they were mixed up, the boxes were mixed up.

Mr. Shepard: Your Honor, is that sheet in question still in court here?

Mr. Griswold: I don't know whether it is or not.

Mr. Houk: I have it here, but I can't see what——

The Court: No, no; let's show counsel. They were run on the same sheet but it distinctly designated, as I remember, so he was able to give you dates when he started the early and the late—and the regular.

Mr. Shepard: I just want to know if this accountant—will you pick out that sheet?

A. Yes. I want to set that one out. I guess this top one is the sheet you are referring to for the year '58.

Q. Yes.

A. And on that sheet there is a line of demarcation after July 4th, indicating that the Early LeGrands were packed up to that date in the amount of 5,855. I might say, quite frequently during that period they were bringing in a small quantity of Regular LeGrands, and after that period they were

(Testimony of David J. Byrnes, Jr.)

bringing in small quantities of Early LeGrands, simply because certain orchards in certain areas will ripen [264] early or late. For that reason it is very difficult for us to sharply define just which were early and which were late during this period.

The Court: That demarcation would indicate that during the preceding period you had picked chiefly the early LeGrand, although there may be some runover?

The Witness: Yes, sir.

Q. (By Mr. Shepard): However, the prior year, 1957, you made two separate sheets, one for early and one for regular LeGrands?

A. Yes, sir. The reason was the crop was so much larger during '57 than it was during '58, that we were far more interested in seeing just exactly what we received from the orchard, and apparently the ripening period was shorter and it was easier to separate the two.

Q. Those are copies, aren't they?

A. Yes; they are.

Q. You have your originals at home?

A. We do.

Q. It won't embarrass you to have those left in court here?

A. No; that is why we tried to make the copy and these are carefully and faithfully done, as well as we could possibly do.

Q. I appreciate that. [265]

A. Yellow can't be photostated, at least it can't in the Visalia machines we have down there.

(Testimony of David J. Byrnes, Jr.)

Q. That is all right, Mr. Byrnes. These sheets that I have grouped together, just look at them briefly, will you, Mr. Byrnes, sir? Those are the 1956, '57 and '58 records of the Early LeGrands, LeGrands, and the Red Kings? A. Yes.

Q. Is that correct? A. Yes.

Mr. Shepard: I would like to introduce those in evidence, your Honor, as Plaintiff's Exhibit seriatim, next in order. I think it would save a lot of dispute and argument later on about these dates.

The Court: If there are duplicates, have you any objection, gentlemen? I thought they were original books of entry.

Mr. Griswold: No, your Honor, no objection.

Mr. Shepard: He says these are copies.

The Court: All right. The witness was going to say something. What is it, Mr. Byrnes?

The Witness: There is in addition the record of 1955 here, which you did not mention.

The Court: There was no examination; you better withdraw that. We didn't talk about '55 at all?

Mr. Shepard: No, sir. [266]

The Witness: That was named in the subpoena, that is why we brought that.

The Court: Which is '55?

The Witness: This is.

The Court: What are these?

The Witness: This is '56.

The Court: Well, they are in reverse order. All right, they may be received as one exhibit.

Mr. Shepard: How many sheets?

(Testimony of David J. Byrnes, Jr.)

The Court: Well, I will count them, seven. All right, Mr. Glover. I want to say, gentlemen, I don't know if some of you know Mr. Glover, who is the deputy clerk here.

Mr. Shepard: Very good man, your Honor.

The Court: Ordinarily we don't substitute clerks in the middle, but Mr. Eiland had to attend to some personal matters. We have to train him anyway, and he might as well start in the middle of a case and learn how to carry on.

The Clerk: This is Plaintiff's Exhibit 11.

(The sheets referred to were marked as Plaintiff's Exhibit No. 11, and were received in evidence.)

Mr. Shepard: That is all the questions I have, your Honor.

The Court: All right, any redirect?

Mr. Griswold: No questions.

The Court: All right, step down, Mr. [267] Byrnes.

I think Mr. Byrnes may be excused. They are all your witnesses and some were connected with you, so I have not made any ruling as to them, but unless you want them to stay around they might as well go about their businesses.

Mr. Griswold: We may want him to run one of the slide machines.

The Court: It is up to him then. All right. You keep him if you want. All right.

Mr. Griswold: Mr. Braun.

(Testimony of David J. Byrnes, Jr.)

The Court: To complete the record, do you want further identification? Do you want Mr. Hagler called back and testify—I think he testified yesterday he showed this to the photographer? Do you want further identification?

Mr. Shepard: What is that, your Honor?

The Court: The photograph, B, should be offered now?

Mr. Shepard: The record is that Mr. Clinton Hagler showed this to the witness.

The Court: Aren't you being very technical. You want Clinton Hagler brought here just for that purpose?

Mr. Shepard: I don't know if Mr. Hagler testified that a photograph——

The Court: Let me do it for you. As long as you are going to be technical, I will show you I can fix any technicality. Come over, Mr. Hagler. I believe in an attorney protecting his client, but I don't believe it helps [268] the administration of justice when men testify to certain things to stop merely because of a little thing. Mr. Hagler, showing you this picture—it down here. Let me see that. Give it to me.

LYLE A. HAGLER

the defendant, having been previously duly sworn, testified further as follows:

The Court: I show you a photograph which has been taken by Mr. Byrnes.

The Witness: That is it.

(Testimony of Lyle A. Hagler.)

The Court: What is this?

The Witness: This is the picture of this Red King forked tree.

The Court: Is it a correct representation?

The Witness: Yes; it is.

The Court: This was taken on what date, Mr. Byrnes?

Mr. David Byrnes: September 11th.

The Court: And that has been there since when, that tree?

The Witness: Well, since I discovered it; it has been there since 1950.

The Court: And still is?

The Witness: Still is.

The Court: All right. Any questions?

Mr. Shepard: No questions. [269]

The Court: All right. Do you offer this?

Mr. Griswold: I offer that in evidence.

The Court: It may be received.

(The photograph heretofore marked as Defendant's Exhibit B for identification, was received in evidence.)

Mr. Griswold: Mr. Braun, have you been sworn?

OSCAR MARTIN BRAUN,

a witness for the defendant, having been first duly sworn, was examined and testified as follows:

The Clerk: State your full name, please.

The Witness: Oscar Martin Braun.

(Testimony of Oscar Martin Braun.)

Direct Examination

By Mr. Griswold:

Q. For the record, state your full name.

A. Oscar Martin Braun.

Q. Your address?

A. 11150 East California Street, or Avenue, Sanger.

Q. And your present occupation?

A. Instructor, Fresno State College.

Q. And how long have you been an instructor at Fresno State College? A. Since 1936.

Q. And in which department are you?

A. In the horticulture department.

Q. And that includes fruits? [270] A. Yes.

Q. Other than grammar and high school, what higher education did you receive?

A. I graduated from the University of California, with the B.S. degree in agriculture, and took further work for a Master's degree in vocational education.

Q. Was that the State University at Berkeley or Davis, California?

A. Both, at Berkeley and Davis.

Q. And then did you teach agriculture in the public schools of California?

A. Yes, sir. I started at Petaluma in the fall of 1929, and then went to Fowler in 1930, and remained there until 1936, when I began to teach at Fresno State College.

(Testimony of Oscar Martin Braun.)

Q. What other work experience have you had in the field of horticulture?

A. Well, I have—during the summer times while I was teaching I inspected fruit in the Department of the Agricultural Commissioner of Fresno County, and during the war period I was instrumental in a labor training program for people in pruning trees and vines, and I also was on a farm and have done farming work.

Q. Now, have you ever done any work as far as plant breeding? A. Yes, I have. [271]

Q. Will you state it? A. Sir?

Q. Will you state what that experience has been?

A. My first job upon graduating from the University of California was to take a position with the Peter Wheeler Seed Company, at Gilroy, as field foreman and I also was in charge of their plant breeding and selection work.

Q. And have you done any work in plant breeding problems here in Fresno, California?

A. Yes, I have, for a number of years I have done hybridizing and selection on my own ranch, and I also have supervised students in special problems in plant breeding work in connection with Dr. Weinberger and Mr. Thompson who are with the U. S. Department of Agriculture here in Fresno

Q. That is Dr. John Weinberger?

A. Dr. John Weinberger, yes.

Q. And then you have a diversified fruit farm of your own located where in Fresno County?

A. Sanger, California.

(Testimony of Oscar Martin Braun.)

Q. And that is how many acres?

A. Sixty.

Q. And what do you grow on that farm?

A. Peaches and plums and grapes and citrus.

Q. You have been asked to perform a study on nectarines? [272] A. Yes.

Q. You are familiar with the Hunter ranch in Visalia, Tulare County? A. Yes, sir.

Q. Am I not correct that you did some work for Mr. Hagler several years ago, relative to an application for a patent? A. Yes, sir.

Q. I show you Defendant's Exhibit A, and ask you if you are familiar with that patent and its contents? A. Yes, I am.

Q. And did you, at the request of Mr. Hagler or his representative, prepare any information for him? A. Yes, I did.

Q. And will you state briefly approximately the time that you were engaged in that work, the year and the month, if you can, and generally what you did in that connection?

A. As I remember, I believe that Mr. Riesner came to me, Mr. Robert Riesner I guess it is, came to me sometime during the summer of, I believe it was in June or July, of 1956, as I remember it, and asked me if I would write up the descriptive notes for this mutation which they had found of the Red King on the Hunter ranch.

Q. And did you so prepare information for Mr. Riesner and Mr. Hagler? [273]

A. Part of my work at Fresno State College is

(Testimony of Oscar Martin Braun.)

to teach a class in systematic pomology, and I have always been interested in studies of fruit varieties, and I studied fruit varieties for many years and have judged fruit in many of the San Joaquin Valley fairs, and so I said I would be glad to write up a description of the fruit for him, yes.

Q. And that formed the basis of the claims and specifications in Exhibit A of the defendants, which I have shown you? Did you——

The Court: He didn't answer.

The Witness: Yes, sir.

The Court: I didn't hear.

Q. (By Mr. Griswold): In order to do this work, what did you do, in order to perform this service? What did you do?

A. Well, I believe that previous to that time, I think it was in 1955, that Mr. Riesner had taken me over and showed me this tree, and remarked that it was a mutation from the regular LeGrand, and I have seen the fruit——

Mr. Shepard: Your Honor, I think it would be objectionable and I do object to his——

The Court: Well, what he stated to you is immaterial. What he showed you is material. The statement that Mr. Riesner made may be stricken. Have you testified in court before? [274]

The Witness: No, sir.

The Court: When you testify you must bear in mind that you cannot give statements made to you unless, for instance, Mr. Kim talked to you about

(Testimony of Oscar Martin Braun.)

the matter, that would be admissible, because he is your opponent, but you can't make statements as to what Mr. Hagler testified, or anyone else who represented him. You can state what they showed you, and then what you did following that. Go ahead.

Q. (By Mr. Griswold): So a tree was pointed out to you? A. Yes, sir.

Q. I show you Defendant's Exhibit B and ask you if you can identify the tree in that photograph, or the trunk thereof? A. Yes.

Q. And what is it?

A. This is the trunk of the tree which has the Red King mutation on it.

Q. And that is the tree that Mr. Riesner pointed out to you, you believe in 1955? A. Yes.

Q. Have you had occasion to inspect and look at the fruit on that tree? A. Yes, sir.

Q. At a later date, you were asked to do a study as far as [275] the fruits of the tree which you have identified as the variety known as Sun Grand, or plant patent 974? A. Yes, sir.

Q. Prior to that request you were familiar with the Sun Grand nectarines? A. Yes, sir.

Q. And the fact it was plant patent 974?

A. Yes, sir. I believe that in the publication put out by Mr. Brooks the name was formerly Sun Brite, in the first report of variety it was not Sun Grand but it was later changed to Sun Grand.

Mr. Savage: I didn't understand that.

(Testimony of Oscar Martin Braun.)

The Witness: I believe the name of the Sun Grand was originally Sun Brite.

Mr. Savage: How do you spell it?

The Witness: B-r-i-t-e. In reading the report produced by Dr. Brooks, in the register of new fruit varieties. I believe that is the way I saw it.

Q. (By Mr. Griswold): Well, you were familiar with the variety? A. Yes, sir.

Q. Now, it is true that I asked you to do a study, did I not?

A. Yes, and I said that I would look at the fruit and tell you what I found. [276]

Q. And when did you commence that employment, approximately?

A. I believe it was March 1st.

Q. Of which year? A. 1958, of this year.

Q. Now, will you state in a general way the time that your study has covered, and what you did pursuant to my request?

A. Well, you asked me to locate some Sun Grand orchards where I could make a study as the season progressed of the Sun Grand variety, and compare it to Red King, so I called up the Barr Packing Company and asked them if they had any growers in their area who had Sun Grand nectarines, and they said they had a grower, Mr. George Kozuki, who lives on East Adams Avenue in the Parlier district, and who has a Sun Grand planting on a ranch located on East Lincoln Avenue. So I arranged to meet Mr. Kozuki and got his permission—I told him I was interested in making a study

(Testimony of Oscar Martin Braun.)

of the characteristics of the Sun Grand, and he went out with me and I picked a tree at random and tagged that tree, and used that tree the entire season in making selections of material from the tree for study. Then I also called the Valley Packing Company—I mean I called the Bonn Packing Company at Sanger and asked their office manager if they knew of anyone who had Sun Grand nectarines, and they said Mr. Harry [277] Hiraoka at Fowler had a planting of Sun Grand nectarines, and I got in touch with Mr. Hiraoka and got his permission also to make a study of this variety. I tagged the tree and located it, and used that same tree throughout the entire study. Then I proceeded—that was, I believe the first visit there was March 1st, I believe, it was a Saturday, I think. Teaching I had to arrange to do all my work on weekends, or before and after hours, so it would not conflict with my classes, so most of my selections were made on Saturdays and Sundays, and my study was done mostly off time, too.

Q. Now, did you pick out any other trees to use in this test?

A. Well, those were the two trees that I picked out. And then on April 5th you sent me a memorandum which gives permission, or you asked permission from the Kim Nursery Company to furnish us with some orchards or some locations where we might find some Sun Grand nectarines, and I chose the Tagus ranch because it was much closer to the

(Testimony of Oscar Martin Braun.)

Hagler planting, and I think that is important, because you have a closer situation, which is more likely to give a truer picture of how the fruit variety ripens and is growing more under the same conditions, so that everything is more normal.

Q. In other words, Mr. Shepard will verify, Tagus [278] ranch was given by the plaintiff, Kim, as one of the ranches on which there were Sun Grand?

Mr. Shepard: I would be very willing to introduce my letter to you in evidence.

The Court: Well, it doesn't matter, as long as you agree, there is no use encumbering the record with letters. All we are interested in is the reason why that was chosen.

Mr. Shepard: I will stipulate that on March 14, 1958, I advised Mr. Griswold by letter that among other ranches the Tagus ranch, on Highway 99 north of Tulare, California, had Sun Grands growing thereon.

The Court: All right.

The Witness: I located Mr. Keegan, the manager, he went out with us and we located—I believe Mr. Lyle Hagler was with me at the time, and we located a tree and there again I marked the tree and took down the exact location.

Q. (By Mr. Griswold): How far is the Tagus ranch from the Hagler farm?

A. Well, sir, I didn't actually measure that, I would say probably, oh, two or three miles. Of course, we also selected a tree in the Lyle Hagler

(Testimony of Oscar Martin Braun.)

plantings for study and marked the tree, and went to that tree.

The Court: Well, the distance is not such that there would be variety of climatic and soil variations and the like?

The Witness: No, sir, the conditions are very similar, [279] soil conditions and climatic condition I would say are approximately the same.

The Court: Giving due allowance to the fact that there may be variations within the same district and county, the variations are not likely to be encountered in so short a distance, isn't that true?

The Witness: That is correct. There are always some variations in soil conditions. However, I think these were what you would call normal conditions.

The Court: I see. All right.

Q. (By Mr. Griswold): Did you study any other orchard or tree, or trees, in addition to the ones you have mentioned?

A. Well, I also studied, of course, the mutation tree of the Red King on the Hunter ranch.

Q. State generally what you did in relation to each one of these trees?

A. Well, what I would——

Q. I want your procedure.

A. My procedure is this, since you asked me to get the information and make a comparison to see what differences there were between these varieties, it was necessary for me to immediately, upon

(Testimony of Oscar Martin Braun.)

the very first visit, on March 1st, when I located these orchards, to take samples of blossoms, as the trees were in blossom. Now, it wasn't until April 5th that [280] I visited the Tagus ranch and the Lyle Hagler place, so I didn't get any blossoms, of course, from those trees, but for the two ranches I visited, George Kozuki's ranch and Harry Hiraoka's ranch, I started immediately to take material and have pictures taken of that, and I studied it and looked for these differences.

Q. So you started out in the blossom period?

A. Yes, sir.

Q. And made photographs of the blossoms?

A. Yes, in the—my guide in all this work, in all my systematic work in classifying peaches and nectarines trees is the standard that is published by Blake & Edgerton, which I call my bible from the standpoint of analyzing and comparing trees, and they list some 28 different characteristics in this publication which are all important, no one characteristic is entirely important; they are all important. There is controversy on some of these, of course, so I tried to get every possible characteristic I could and use it in the study.

Mr. Shepard: Are you going to introduce that? I want to write it down.

Q. (By Mr. Griswold): You referred to this publication by Blake & Edgerton, Standards for Classifying Peach Characters?

A. By the New Jersey Agricultural Experiment Station, [281] Bulletin 728.

(Testimony of Oscar Martin Braun.)

Mr. Griswold: We will offer this in evidence, if the Court please.

The Court: It may be——

Mr. Shepard: Your Honor, I don't think the books are allowable in evidence. I would like it for identification.

Mr. Griswold: All right, that is all right.

The Court: I don't know any rule that doesn't allow them.

Mr. Shepard: As I understand it, an expert witness may refer to the book but he may not read from the same.

The Court: Oh, that is where you are absolutely wrong. He may read the same and photograph the same. As a matter of fact, in the last opinion I wrote involving a patent, whole pages of encyclopedia relating to plastics were introduced in evidence. You must bear in mind, we are not governed by the State rules of evidence. We are governed by rules which we make ourselves.

Mr. Shepard: Well, your Honor——

The Court: Just a minute. Just a minute. When counsel tells me something isn't the law I want to be sure that he knows what he is talking about, and that I know what I am talking about. Get me the opinion, so I can show you what we have, so we will not have merely a repetition. Just a minute. Let's get the latest patent case, so we will know what we are doing. Get me 161 F. Supp. 437, Van Brodie [282] against Cox Air. However, in

(Testimony of Oscar Martin Braun.)

order not to encumber the record, it would be better if counsel were to refer to any special fact. This is a pamphlet that is probably difficult to get, it is dated in 1946.

The Witness: Your Honor, I wish to quote from that pamphlet which contradicts some of the statements made by former witnesses.

The Court: I think the best way, this should be marked for identification, and then the portions that you quote, refer to, will go in as a part of your testimony, so we will mark it for identification. But I want to settle the problem. The Van Brode Milling Company, incidentally, was decided in April of this year, April 21, 1958, in which I declared a patent invalid; I think the second one in my entire career where I have done that, because ordinarily, if there is any way of saving a patent I will construe it narrowly in order to save it, but this one I killed entirely. In that particular case, in footnote 18, reference was made to a catalog of Dow Chemical Company, as the witness had identified it, showing that this particular combination for plastic was recognized in the trade. In footnote 21, a page from the Styrene Polymers and Copolymers, Modern Plastics Encyclopedia and Engineers Handbook of 1950, page 754 was introduced. In footnote 22 page 157 of the Modern Plastics Encyclopedia was introduced. Those are just [283] illustrations.

Mr. Shepard: Your Honor, wasn't that to show the prior state of the art?

The Court: Which?

(Testimony of Oscar Martin Braun.)

Mr. Shepard: To show the prior state of the art, to show the patent was not really a new venture, was that the purpose?

The Court: Well, that was one of the purposes, but a witness who testified as to his qualifications may refer to publications which either support his statement or contradict others.

Mr. Shepard: I agree with your Honor on that. I just thought that on direct examination to support his opinion and conclusions it was generally the preferred rule he should not read from the textbooks.

The Court: No, no. If he wants to say that this has the support of someone else, if he testifies as an expert, it merely adds to the source of his information, just as I referred to in another opinion, that hasn't been published yet, an opinion I have written since. I stated the other day, a question arose whether a fracture of the hips could follow an epileptic seizure, whether induced by epilepsy or what we call electro-shock treatment, and two of the doctors referred to a page of a book, I forget the name of the book, it was a very odd name, in which such a case is noted, and they did it as a part of their statement. [284]

Mr. Shepard: I appreciate your information and advice.

The Court: It isn't information and advice. I have been a judge too long to just say "this is my ruling." Perhaps I go back to the fact that I

(Testimony of Oscar Martin Braun.)

taught law for ten years in addition to other activities, and therefore I taught my students to try to give reasons and I try to give my reasons to counsel, so they will know I am not just arbitrarily ruling.

Mr. Shepard: I appreciate that, and I hope your Honor doesn't think I am being obstreperous in making an objection.

The Court: No, no, you are trying to protect your record, which is all right. All right.

Q. (By Mr. Griswold): So you used the publication which is being marked for identification to guide your study and research?

A. Yes, because I feel this is one of the most complete procedures that I have encountered by many years of study in horticulture and systematic pomology.

(The pamphlet referred to was marked as Defendant's Exhibit C, for identification.)

Q. Now, will you proceed and relate—you started out by taking photographs of the blossoms.

A. And I proceeded each week, whenever I found it was necessary to visit these special trees which I had marked out at random, take samples of the fruit as it was growing, [285] or the leaves or twigs, as the season progressed, and I took—had pictures taken, in some cases I took some myself, and then also we had fruit put aside for storage purposes.

The Court: I think the book should be given an identification.

(Testimony of Oscar Martin Braun.)

The Witness: I would like to quote from that during——

The Court: Just call it C for identification. All right.

Q. (By Mr. Griswold): I would also like to add another bulletin to be marked for identification, The Taxonomic Value and Structure of the Peach Leaf Glands.

The Witness: Yes, sir, I wish to use this also because this also contradicts some statements made by another witness.

The Court: And who is the author of that?

The Witness: Gregory, Dr. Gregory.

The Court: Cornell University?

The Witness: Yes, sir.

The Court: All right, this may be——

The Witness: I think that is a very important publication.

The Court: It may be marked for identification, to be referred to by the witness. All right. That will be D for identification.

(The pamphlet referred to was marked as Defendant's Exhibit D, for identifica- [286] tion.)

The Witness: Your Honor, I would like to have permission to use that also during the presentation.

The Court: That is all right; permission will be granted, and then if you do more than just quote and it is necessary I will have those photostated so these may be returned. I have learned from ex-

(Testimony of Oscar Martin Braun.)

perience in the trial of these lawsuits that many of these exhibits are very, very valuable. I know in one involving the trade name of a dramamine we used very valuable dictionaries and the like, and we received them in evidence and photostated the pages because they were valuable. And I remember one patent case I tried involving a tool to discover deflection in a slant drilling where they brought in an exhibit that was worth \$16,000, an exemplar of the tool, which of course was later photographed and the original withdrawn.

All right. This is a good stopping point so as not to break the continuity of this witness' testimony. We will take a short recess, unless you have other documents you want him to identify.

Mr. Griswold: No, I think it is a good breaking point.

The Court: All right.

(A short recess was taken.)

Mr. Savage: If the Court please, yesterday the defendant requested that we get the information from Mr. Stafford as to whether or not we had sold Sun Grands to the two Japanese [287] who have been mentioned just recently. We have that information and we are willing to stipulate that we did sell Sun Grand nectarines to these two Japanese, whether they planted them or not, or what they did with them we don't know.

Mr. Griswold: For the record, their names again?

(Testimony of Oscar Martin Braun.)

Mr. Stafford: Mr. George Kozuki, and Mr. Harry Hiraoka.

The Court: All right.

Mr. Stafford: George Kozuki, 16163 East Adams, Parlier, California, and Harry Hiraoka, 6232 South Leonard, Fowler. We sold them both.

Mr. Savage: Is that satisfactory?

Mr. Griswold: Yes, we will so stipulate.

Q. (By Mr. Griswold): Those are the individuals whose trees you visited and marked the trees as you have described? A. Yes, sir.

Q. Mr. Braun, I am going to ask you to demonstrate your findings. Would it be better to go through the pictorial evidence that you have, your slides, and explain your findings from those slides?

A. Well, I feel that I would rather do it that way. There are many characteristics, and of course you know in the development of fruit you have a normal curve, a normal distribution of variances as to all characteristics, and there are some characteristics that are similar in Sun Grands and in Red Kings. And so I would prefer to show you [288] what I found on the screen here, if I may discuss it as I project it.

The Court: Well, we will have to have it set up so the reporter can work.

The Reporter: There is enough light for me to see.

The Court: All right. Go ahead then.

Mr. Shepard: Your Honor, I don't want to

(Testimony of Oscar Martin Braun.)

appear obstreperous, but I want the record to show that I have never seen these photographs before, and I know it would be cumbersome at this stage of the game to show them to me beforehand, so I guess I will just have to go along with it.

The Court: Well, it is not necessary to exhibit to the other side in advance expert's photographs or things that an expert may bring along with him.

Mr. Shepard: I am just making that observation.

The Court: That is all right.

The Witness: May I proceed?

The Court: Yes. First, you better identify each slide so it can be tagged and given a number, or a **designation in the record.**

The Witness: Yes, sir.

The Court: As you do, you better describe the——

The Witness: The first slide, your Honor——

The Court: ——instrument that you are using.

The Witness: I am using a projector, 35 [289] millimeter projector, and we are projecting 35 millimeter slides.

In the first slide it shows comparative pictures of some flower buds taken from these trees and these are the calyx cups.

Mr. Shepard: As the Court pointed out, does Mr. Baun have some sort of a number on each of these slides?

The Witness: I will have to number them as we go along.

(Testimony of Oscar Martin Braun.)

Mr. Shepard: Would you put a number of them?

The Court: If you put one, we will have to give it a different number in the record as you go along, and these——

The Witness: In this particular slide——

The Court: These will have to be left here.

The Witness: ——it shows——

The Court: Just a minute. The clerk will have to identify these. These will have to be left here. These are——

The Witness: Yes, sir.

The Court: ——part of the exhibit.

The Witness: Yes, sir.

The Clerk: This will be Defendant's E.

Mr. Savage: May I suggest we give it a certain exhibit number, and then 1, 2, 3, 4; it will be less confusing. There will be dozens of them.

The Clerk: The next number, your Honor, will be Defendant's E.

The Court: Then E-1, E-2, E-3 and so forth.

Mr. Savage: That is what I was suggesting. Thank you, [290] your Honor.

The Court: All right.

(The slides hereafter shown were marked for identification after each was shown, as Defendant's Exhibits E-1 to E-69, both inclusive.)

The Witness: This is a slightly different picture I wish to show you, there is a slight difference in the calyx cup here, and in the size and width of

(Testimony of Oscar Martin Braun.)

the calyx cup, which Blake and Edgerton mentioned as characteristics which are important to consider. Now, also I wish to point out to you these are the calyx cups. The calyx lobes here are also different in the Red King, the original tree, the Hunter tree and the Red King graft.

Q. (By Mr. Griswold): Mr. Braun, will you identify the source of each blossom, in each case, as you go through these slides? First identify it.

A. This blossom is from the original Hunter mutation tree, the Red King. This blossom is from the Red King graft from the Hagler ranch. This blossom is from the Sun Grand at the Hiraoka ranch, and this blossom is from the Sun Grand at the Kozuki ranch.

Now, Blake and Edgerton mention in their reference that the length of the calyx lobes are also useful to distinguish one variety from another, and I wish to point [291] out that there is some difference in the sizes that make up these lobes. Film No. 2.

Q. First, let's take that and mark it and give it to the Clerk. A. Yes, sir.

The Court: All right, Exhibit E-1.

The Witness: Slide No. 2, I wish to show you a longitudinal section of these same buds, and, by the way, all these samples that I took, I took random samples. I did not pick any samples, because that would invalidate the samples. Here again may I point out, first identify again, this blossom is from

(Testimony of Oscar Martin Braun.)

the Red King, the original tree; this is from the Red King from the Hagler graft; this is from Sun Grand at Hiraoka; this is from Sun Grand at Kozuki.

The Court: They are in the same order on all these slides?

The Witness: They are in these particular ones.

The Court: All right.

Q. (By Mr. Griswold): For the record, "O" means the original tree?

A. Yes. "Gr" is graft from Hagler ranch; "H" refers to the Hiraoka ranch, and "K" refers to the Kozuki ranch.

Q. And you have so designated throughout?

A. Yes, sir. "T" will refer to the Tagus ranch.

The Court: All right. [292]

The Witness: Now, may I call your attention to a variation in the width of the calyx cup through here, as compared to the Red King. There is a noticeable difference. May I also call your attention to the difference in the coloration of the antlers. May I also call your attention to a difference in the angle, the way the filaments grow out from the edge of the calyx cup, or receptacle. I think those are important.

Q. (By Mr. Griswold): Mr. Braun, could you very briefly label all parts to show the flower?

A. Well, we have, of course—this is the pistil coming up in the middle, the style, the ovary; this is the calyx cup, this is the calyx lobe; these are

(Testimony of Oscar Martin Braun.)

the petals. Then you have the stamens, of course, with the filaments and the antlers which contains the pollen.

Q. Where does the fruit form?

A. The fruit forms at the ovary.

Q. That exhibit is E-2.

A. Now, No. 3, I wish to present a picture again of some flowers, and I apologize that writing is not more legible. This is the Red King original tree, the Red King graft, the Sun Grand from Kozuki and the Sun Grand from Hagler—or from Hiraoka. Now, I wish to point out here, one of the things that we must consider in arriving at differences is the [293] fact that all these blossoms are what we call large showy blossoms. That in itself is not the complete matter. We have along with that what we call round petals, which you see here, and the elongated type of petal which I wish to bring out to you here.

Q. Identify it, please, as you point.

A. This petal you can see is elongated, and as you look at the various petals of the Sun Grand they are more elongated than the rounded petals of the Red King, which is an important characteristic, to differentiate between varieties.

Mr. Byrnes: No. 3 (handing to clerk).

The Witness: To further bear this out, we took some close-up shots. I had Mr. Bates take these shots, a student at the college who does photography work. We have here another picture of the Sun

(Testimony of Oscar Martin Braun.)

Grand from the Hiraoka ranch, which shows the elongated type of petal.

Mr. Shepard: Could we have foundation on that?

Q. (By Mr. Griswold): You were there, Mr. Braun?

A. Yes. I set the samples up, and I was always present and the specimens and samples never left my sight until we were completed with all of the examination and pictures.

Mr. Shepard: Thank you.

Q. (By Mr. Griswold): That is true of everything you are showing? [294] A. Yes.

The Court: You were present when all the pictures were taken?

The Witness: Yes, sir.

Mr. Byrnes: No. 4.

The Court: All right.

The Witness: Then I have one here from the Red King. Now, may I point out here that the petals are more roundish again, as shown in the photograph to the left.

Mr. Shepard: That is 5 you have.

The Witness: This is No. 5, this one right here. I have 6, which is petal flower from the Hiraoka planting, which again shows a more elongated type of petal.

Q. (By Mr. Griswold): Could you drop that a little bit? Thank you.

A. This is 6. Then I have a slide of the Hunter Red King tree, which I took April 5th, when I was

(Testimony of Oscar Martin Braun.)

asked to visit the Tagus ranch and made a selection there. I made a complete round, taking samples at the various places. I wish to point out in this particular tree, which is the original mutation tree, the first time I visited the tree during the blossoming time and during the early fruit there was a limb coming out here with a nectarine on it, which was about ten inches from the ground.

Q. May I interrupt? Can we use the other slide and get [295] a better picture?

Mr. Byrnes: I think we can on this particular shot. Let's try.

Q. (By Mr. Griswold): That is the same slide in the other machine. Will you proceed, Mr. Braun?

A. I wish to point out that in discussing why that limb was removed we do not know. None of the people I checked with admitting cutting it off. It was important to me because it had nectarines on it.

Q. You are referring to——

A. Up above; right there.

Q. You observed a nectarine growing out of that?

A. Blossoming with nectarines.

Q. When?

A. That was in April when I checked—in March and April.

Q. And later that limb had been removed?

A. April 5th that limb was cut off.

Q. How had it been cut?

A. It looked as if it had been cut with shears.

Mr. Byrnes: This is No. 7.

(Testimony of Oscar Martin Braun.)

The Witness: Now, I wish to show some pictures of some young fruit, which were taken April 5th by Mr. Bates, artificial light. I am not interested too much in the color here as I am with what we see. These fruit came [296] from the Tagus ranch. I wish to point out some characteristics which we mentioned the other day. You can see here the Tagus Sun Grand, you see what we call the filament from the style, the style isn't shown on this fruit. It happens these were all random samples, I did not select any sample. I took them just as they came. This next one is from the Hiraoka orchard.

The Court: Have we given that a number?

Mr. Byrnes: This is No. 8.

The Witness: You also notice the size, the comparative size of the fruit at this time, and also you can notice the stylar hair growth at the end of the fruit which was mentioned the other day. I will put this one on. This will be Red King original.

Mr. Savage: Will you please give the numbers as you put them on.

The Witness: This will be, that is No. 9.

Mr. Byrnes: Mark it and I will put it back in.

Q. (By Mr. Griswold): Were the samples taken the same day?

A. Yes, sir. All the samples were taken on the same day. It is very important, otherwise it would not hold up. All the samples have to be taken at the same time, in the same manner, on the same day. You can't pick your samples. Now, there is

(Testimony of Oscar Martin Braun.)

no style here in this particular variety, the [297] cap was pulled off carefully, which I did that. I will leave that up there because I want to put up another here from Kozuki.

Mr. Byrnes: 11.

The Clerk: Wait a minute.

Mr. Savage: What is 10?

The Witness: This one, Red King, is 10. Now here again you can see the style of hair at the tip of the growth. You also notice that this fruit, these fruits are larger, much larger than any of the Sun Grand fruit, at this stage of development.

Q. (By Mr. Griswold): Which ones are larger?

A. The Red King.

Q. On the left? Which tree?

A. That was from the original mutation tree.

Mr. Byrnes: No. 9, No. 10 and No. 11.

The Court: All right.

The Witness: Now, June 28th, which was just about near harvest time, I made the rounds again and checked the fruit, and this is what I got.

Mr. Byrnes: No. 12 will be the next one.

The Witness: 12. I don't—I ran a sample through and ran the fruit through a saw to get a picture of the cross section in the upper two pictures, and the longitudinal [298] section of the fruit in the lower two pictures. That is Red King from the Hagler ranch. Well, this is not what I wanted here. I guess it is all right though.

Mr. Shepard: What slide numbers do you have there now?

(Testimony of Oscar Martin Braun.)

The Witness: I numbered these. This is No. 14 I am putting in now.

Mr. Byrnes: This one I have over here is 12.

The Witness: Yes, you keep that in there. Now, this is the random sample again of Sun Grand from Hiraoka ranch. I wish to point out there a characteristic which I found important in these two varieties all the way through. The Sun Grand seem to have more of an apex tip to it, in all cases, and it has more what we call a truncated apex, and more of a truncated base end of the fruit than we found in the Red King. The Red King was more rounded, and the tip, which we have a normal range that I could—if I was picking my sample I could pick out Red Kings that looked like Sun Grands, and I could pick out Sun Grands that looked like Red Kings, but when I took a normal sample at random, this is what I got.

Q. (By Mr. Griswold): What was the date that you took those samples and sawed them in half?

A. 6-28, I believe was a Saturday.

Q. That is June 28th? [299]

A. June 28th, yes.

Mr. Byrnes: This is No. 14.

The Court: I didn't hear you call 13.

Mr. Griswold: I don't believe there was any 13 offered.

The Court: Mr. Glover, did you get a 13?

The Clerk: The last I have is 12.

Mr. Byrnes: 13 I turned back. I am sorry, your Honor, I made a mistake.

(Testimony of Oscar Martin Braun.)

The Court: Then we will make a notation there is no No. 13. Then we will know there was one missing.

The Witness: There will be a 13, but it will be later.

The Court: There is no 13.

The Witness: This is 15. That shows the same general characteristics that I have mentioned about the Sun Grand, a little more pointed and it is more truncated at the base and at the apex, more compressed on the sides of the fruit, and also may I call your attention here again, and I know this occurs all the way through the season, which was more accentuated through Sun Grand, we had a greater even development of the fruit. In many cases half the fruit would be much smaller than the other side of the fruit.

The Court: In other words, it was not symmetrical?

The Witness: Sir?

The Court: It wasn't symmetrical?

The Witness: Yes, sir, it was not symmetrical.

This is [300] here——

Mr. Byrnes: This is 15, this is 14.

The Witness: Now, may I present No. 13, or shall I give that another number?

The Court: Well, have you got 13 now?

The Witness: Yes.

The Court: Well, all right, go ahead.

The Witness: Here we have four views of this

(Testimony of Oscar Martin Braun.)

same kind of fruit that I took. Now, as I mentioned before, I mention it all the way through my work, I will not take picked samples, because they don't mean anything. Here you have——

The Court: Now, just a minute. I have to warn you, all experts are alike. You make speeches. Now you have told us——

The Witness: Pardon me.

The Court: ——at least six times——

The Witness: Pardon me, sir.

The Court: ——that you took them at random and you have given us the reason. Once is enough.

The Witness: Pardon me, sir.

The Court: All right.

The Witness: I wish to show here the appearance of the fruit at this stage of development, which was just previous to harvesting.

Mr. Byrnes: 6-28, this is No. 16. Which will be the [301] next one? Sun Grand Kozuki?

Mr. Savage: What number?

Mr. Griswold: 16.

The Witness: I wish to show there the characteristic which I found more prevalent in this variety. They were not accentuated to the same extent as the Red King, more peaked and truncated at the base, more uneven development, fruit not so symmetrical, and more compressed type of a growth.

The Court: Just what do you mean by the word “compressed”?

The Witness: Laterally, the sides are more com-

(Testimony of Oscar Martin Braun.)

pressed laterally, like an apricot, the fruit, the cheeks of the fruit are not so rounded.

The Court: They don't bulge out?

The Witness: Yes.

The Court: I see. I just wanted to know what you meant by the word "compressed" used in that way.

The Witness: This is Hiraoka Sun Grand.

Mr. Shepard: Is that 17?

Mr. Byrnes: This is 17, yes.

The Witness: This is—now, I have one from the Sun Grand at Tagus ranch, which I wish to bring out that the apex tip of the fruit is a little bit larger and you have this compressed characteristic of the fruit. [302]

Mr. Byrnes: No. 19.

The Witness: 19 is Red King. Another sample showing—this is from the original tree of the Red King, showing a sample of the fruit. No. 20 is from the Sun Grand Tagus.

Mr. Shepard: The projectors have different lights on them?

Mr. Griswold: The projector on the right is better. I would make the suggestion that we just use it exclusively.

The Court: All right.

The Witness: The Sun Grand at Hiraoka ranch.

Mr. Shepard: Which number is that?

The Witness: 21.

Mr. Shepard: Could you show that 20 in this projector again?

(Testimony of Oscar Martin Braun.)

Mr. Byrnes: Glad to.

Mr. Griswold: I might say, Mr. Braun, if you have duplicates showing the same thing, I don't think it will be necessary to go through any duplication on the slides. Take whatever time you need, but don't show us the same thing.

The Court: Unless they are taken from a different angle or show something different, there is no use——

The Witness: Oh, yes, No. 22.

The Court: ——to duplicate.

The Witness: I wish to show you some side views of some of the fruit, the Hiraoka Sun Grand and the Red King. [303]

Here again may I point out the peakedness at the apex and the pointed fruit at the apex. Now, this is a sample——

The Court: You are covering it up.

The Witness: ——of the general fruit of that variety at the Hiraoka ranch.

Mr. Byrnes: 23.

Mr. Shepard: There are about 15 samples there?

The Court: Seventeen, I count.

The Witness: Here is a fruit from Sun Grand, and here again in setting these up I wanted to put the majority of the fruit of a certain type together showing the range or variation of the varieties as I found them. I find that there is more rounded fruit for the Red King than there is for the Sun Grand.

(Testimony of Oscar Martin Braun.)

Mr. Savage: Red King from what?

The Witness: From the graft.

Mr. Griswold: From the Hagler ranch?

The Witness: From the Hagler ranch.

The Court: All right. That is 22?

Mr. Byrnes: 22.

The Witness: Now that shows the top of Red King, that is 24.

The Clerk: The next I want is 23.

The Court: Just a minute, Mr. Glover is having difficulty keeping up. [304]

Mr. Savage: Where is 24?

Mr. Griswold: Identify the orchard, Mr. Braun, from which the sample was taken.

The Witness: The Red King orchard would be from the Hagler ranch. That is the orchard that I checked.

The Court: Well, the defendant or the brother?

The Witness: The Lyle Hagler ranch, the defendant.

The Court: All right. Go ahead.

The Witness: Next I have some samples of some leaves which I wish to show. 25 are some leaves from the Red King trees taken—the pictures were taken by my son Russell Braun, 7-5. Now, I wish to call to your attention here to the—and here again may I refer to the standards by Blake and Edgerton, leaves are important. In the study of leaves we have the petiole, we have the leaf glands which are normally located on the petiole or the blade near the base. We have the base angle of the leaf, we

(Testimony of Oscar Martin Braun.)

have the apex angle of this leaf. Will you please remember the general appearance of the apex angle of the Red King. Do you have the next one?

Mr. Griswold: How about the glands?

The Witness: I am not using the glands at this time.

Mr. Griswold: You have other photographs of that?

The Witness: Yes. Here is a picture of the Tagus Sun Grand, 7-5-58. You notice that the apex angle is not [305] so fine, it is broader, which is another difference between these varieties. May I have the next slide, please?

The Hiraoka Sun Grand shows the same general condition, the apex angle of the leaves are broader at this point. Those are the things I want to bring out here.

Color is a variable characteristic; it varies with the fertilizer that is used, and the richness of the soil, so I am not interested in color in these pictures, although there is a difference in color.

Now, we come to some more sections of the fruit taken during the harvest time. I have here the Hiraoka Sun Grand longitudinal and cross section taken 7-5.

Mr. Shepard: Number?

The Witness: No. 28. Now, another characteristic in determining varieties is color of flesh. There are a whole range or series of flesh colors, and to say that the flesh is yellow is a very general state-

(Testimony of Oscar Martin Braun.)

ment. There are different degrees of yellow, in combination with other colors. We have different degrees of the pink also around the pit and around the seed. This is the Sun Grand from the Hiraoka ranch, the sample taken 7-5-58. Here again you have pointed apex, you have irregular uneven development of the fruit showing up. Next picture.

Mr. Byrnes: Slide 29.

The Witness: The Kozuki Sun Grand, you have here again [306] some pointedness, you have some irregularity in the fruit, in the shape of the fruit. The longitudinal shape of the fruit is very important, also the transverse section is very important, because it shows you the prominence of the lip.

The Court: How does the color in the cavity of the fruit exhibited in this one compare with that in the other one, which are both of the same variety?

The Witness: The color is similar.

The Court: Would you say more on the yellowish than on the reddish?

The Witness: Well, the color will vary with the ripeness of the fruit also.

The Court: Well, but those were picked on the same day.

The Witness: Yes, the same day. This is Tagus Sun Grand sample. Here we have the type of apex which is very common in this variety. We also have the showing of the uneven development common in this variety.

(Testimony of Oscar Martin Braun.)

The Court: What I was asking is the color in the cavity. You call it cavity, and it is a good name.

The Witness: Yes.

The Court: Caused by the pit.

The Witness: In the pit cavity in this particular sample is a little different from the one Sun Grand which I just had.

The Court: Of course, I know we are limited as to color because of the limitation of the color spectrum. But are [306] they more on the yellowish or on the reddish?

The Witness: Around the tip, sir?

The Court: Yes.

The Witness: They are more pinkish red.

The Court: I see. All right.

The Witness: I wish to call your attention to the elongated type of pit. Now, here again the pits are very important in the diagnosis of variety, and in the examination of varieties. We have many shapes and many kinds of patterns—yes, what we call grooves, line grooves or pit grooves in the pit, and I wish to have you to look at the length of these pits here.

Mr. Byrnes: 31.

The Witness: Now, here we have the Red King graft which is from the Hagler ranch, more symmetrical, apex is broader, pit not so long, a little bit shorter than the one of the Sun Gold. Next please.

Mr. Byrnes: This is 32.

The Witness: This is from the original tree. I

(Testimony of Oscar Martin Braun.)

find that as far as the color around the pit is concerned there was not much difference. I could find ranges in Red King as well as I could in the Sun Grand, and I couldn't use that to differentiate so much between them. Next.

Mr. Byrnes: 33.

The Witness: Here is another picture of the Red King [307] original. There was one thing I noted in the pit, which I will show again, was that the pit had a greater wing and tip was more to one side, the apex tip was more to one side of the center axis, than was the Sun Grand.

Mr. Byrnes: 34.

The Witness: Red King orchard. We do have these tips occurring in both varieties, but they are less prominent in the Red King. One more.

Mr. Byrnes: This is 35.

The Witness: Now, this bears out, shows a more accentuated tip, and also shows a longer pit, which is characteristic for the Sun Grand over the Red King, a longer pit.

Mr. Byrnes: 35.

The Witness: Now, to check on this variety, I took pictures—had pictures taken—36, 37, 38, 39, 40, at a different period because I was interested to see what changes took place in these varieties during the growth period, so these pictures were taken a week later, 7-12. This is Sun Grand, representative sample again.

Mr. Griswold: Which orchard?

(Testimony of Oscar Martin Braun.)

The Witness: This is from the Hiraoka orchard at Fowler, showing the larger apex tip, the uneven development of the fruit, not so symmetrical, the longer pit. Next one, please.

Mr. Byrnes: 37. [308]

The Witness: The Kozuki Sun Grand shows some tip here, it shows more roughness at the suture, it also shows the long pit. Next, please.

Mr. Byrnes: 38.

The Witness: Sun Grand at Tagus, which is right close to the location where the Red King mutation was found, shows a more accentuated type of elongated type of fruit with a greater percentage of the fruit having this tip, which is characteristic of the Sun Grand fruit. Also it shows some differentiation in the ripening on the half of the fruit.

Mr. Griswold: Can you point that out?

The Witness: You can see in this particular fruit right here, it shows here; although I am not interested so much in color here as I am in the section, the shape of the fruit and the shape of the pits. This is what we call a pointed wedged base, and this fruit is characteristic of these characteristics, where at the base end of the fruit, where the stem enters the fruit, it is wedged and the shoulders are high, they are not rounded. Next, please.

Mr. Griswold: Will you compare that to the Red King?

The Witness: In the Red King you will find the shoulders are more rounded. This is Red King original from the mutation tree. You do find some

(Testimony of Oscar Martin Braun.)

pointed fruit, I agree there. There is an overlapping in this variety [309] of this characteristic, but the fruit is generally more round, at both the apex and the base end, the seeds are not so elongated, they are stubbier, they are shorter, they appear to have more width at the stem end of the pit which goes through and matches the greater width of the fruit itself at the base end. Next, please.

Mr. Byrnes: 40.

The Witness: Here we have a section of the Sun Grand at Kozuki, the same day. This brings out very clearly the difference in the ripening of the fruit in those two unequal halves which mature differently. Here again it shows—here again we have the pointed seed, which is longer.

Mr. Griswold: Just one moment, Mr. Braun. You mean that one side ripens before the other?

The Witness: Well, they develop differently, yes, sir. The fruit develops unevenly. I won't say all of it does, but some of it does, as shown here. This happens to be a very good example of what we are talking about there. Next, please.

Mr. Byrnes: That is it. That is 40.

The Witness: All right, here is 41 and 42. Next I wish to show a side view of some of the Tagus Sun Grand and the Red King Sun Grand, the fruits being in the same general location. This is what I call typical Sun Grand color, a yellow orange bronze type of color, typical of Sun Grand; [310] pointed fruit, truncated at the base and at the apex. Typical. It is a good variety of fruit, good eating qualities,

(Testimony of Oscar Martin Braun.)

but this is typical of the shape of the fruit and the color. Next.

This is Red King graft; you notice here the fruit is generally more rounded at the apex, wider at the base, not so elongated.

Mr. Byrnes: No. 42.

Mr. Griswold: Mr. Braun, do the photographs show—I suppose the best test of coloration is the fruit itself?

The Witness: Beg your pardon?

Mr. Griswold: Am I correct that the fruit itself is the best test of the coloration?

The Witness: Yes, it is. Now, Kodachrome colors never come true, we all know that, and of course the fruit itself is the best index to that. However, I wish to point these out as we go along, these things were proportional and I agree with you there, it is true that the fruit itself is the best index. This is some whole fruit of the Red King, 43. Would you show these?

Mr. Byrnes: 43.

Mr. Shepard: Which orchard?

Mr. Byrnes: L. A. Hagler.

The Witness: The color of Red King, while usually redder than the Sun Grand, also has a normal curve of [311] distribution; most of the fruit will be red. However, you will find, and this is confusing to many people, but in the normal course of events you will find color in some of the Red King which will be similar to some of the color of the Sun Grand.

(Testimony of Oscar Martin Braun.)

Q. (By Mr. Griswold): Will you explain the difference in color in the tree locations, I mean the location of the fruit on the tree?

A. Yes. Where I go in to pick a sample of fruit I don't just pick the fruit on the outside, I don't pick the——

Q. I didn't ask that. What relation of the——

A. No, the highly colored fruit will be on the outside of the tree, or on top of the tree.

Q. Where the sun strikes it?

A. Yes. You will also find that color will vary with nutrients in the trees. For instance, increased carbohydrates will give you an increased color in the trees, you have these factors, but other things being equal, the Red King normally has much greater color than the Sun Grand. Now, the point I wish to bring out here is that in this apex shot, this is a top view, looking down on the fruit. I wish to have you notice that there is very little point or apex tip and that the suture is shallow, comparatively speaking, not very deep. Next, please.

Mr. Byrnes: 44. [312]

The Witness: Red King original, showing the typical appearance of the fruit, longer, the suture not too prominent, the lip not too prominent, the fruit is rounded. Next, please.

Mr. Byrnes: 45.

The Witness: Sun Grand from the Tagus ranch. You immediately see here a difference in the development of the fruit, it has similar color but the

(Testimony of Oscar Martin Braun.)

fruit is different. It shows a little more tip to the fruit, it shows a little more uneven development. Next, please.

Mr. Byrnes: 46.

The Witness: Sun Grand Kozuki. This fruit shows that compressed lateral pressure on the cheeks of the fruit; the suture is deeper in practically all cases. Next, please.

Mr. Byrnes: 47.

The Witness: Here we have another picture of the cross section and longitudinal—no, these are all cross sections, I beg your pardon. These are all cross sections of the fruit. There is one thing that I noticed in the Red King, the width of the seed, the thickness of the seed, of the pit—not the seed, make that correction, the pit was greater in the Red King than it was in the Sun Grand. Also you have here what you call—in truth, we have different degrees of freeness of the fruit, between cling and free, and when the fruit—when the pit comes away entirely from the fruit, that is spoken of as air free, as far as the [313] freeness of the pit goes. Do you have any more?

Mr. Byrnes: No. 47.

The Witness: All right. Now, I wish to project a slide on the—48—on the Red King leaf showing the—this again was taken—this picture was taken by Mr. Bates with artificial light. I am not interested in the color. Besides we took—

Mr. Shepard: This is number—

Mr. Byrnes: 48.

(Testimony of Oscar Martin Braun.)

The Witness: Here again may I refer to the publication by Dr. Gregory on the Taxonomic Value and Structure of the Leaf Glands which is not in entire agreement on the position of the leaf glands; whether the leaf glands are reniform, or globose, or whether or not there, it has been found that the number of the leaf glands also varies as compared to the accepting the report in the Sun Grand patent write-up as having an average of four glands, and counting 66 leaves, I found an average of 2.25 glands in the Red King, which I think is a significant difference as far as the number of the leaf glands is concerned. As far as the position of the leaf glands go I found an average number of the leaf glands equally on the petiole as on the blade of the leaf, and I believe in the Sun Grand—if I remember correctly, that most of the glands were on the leaf blade and they average four, as against 2.5 for the Red King. [314]

Mr. Griswold: Mr. Braun, when you refer to the number of glands as four on plant patent 974, you are referring to the patent?

The Witness: Yes, sir, with the average. The number will vary, in this case it varies from two to five, but the average was 2.5, which I think is significant as compared to four for the Sun Grand.

Mr. Byrnes: 48.

The Witness: 48. The next pictures will show some of the pits.

Mr. Byrnes: This is 49.

(Testimony of Oscar Martin Braun.)

Mr. Shepard: Date?

The Witness: It should be, I believe 7-14, but the 4 was made to look like a 9.

The Court: All right.

The Witness: Sun Grand, Tagus ranch, elongated type of pit, the general width at the base of the tip, and location of the pit. Sun Grand Kozuki.

Mr. Byrnes: That is 50 now showing.

The Witness: It is characteristic with most of the pits to have some of the discoloration from the pinkish or reddish color around the pit.

Mr. Savage: What happened to 49? May I ask what happened to 49?

Mr. Byrnes: He is showing 49; and this is 50 here. [315]

The Witness: Next, please. Red King. This is more typical of the Red King pit; it is a shorter type of pit. It has more width of diameter; it has a little more ring to it here than the Sun Grand.

Mr. Byrnes: The Sun Grand is over there on the other side.

The Witness: This brings out the point that you have more of an acute angle here in many of these than you do in the Red King. And may I bring this point out here again, here you have a variance as you do in all these characteristics, a variation, but you find a general characteristic which this is for the Red King, and which the elongated pit and the more acute angle here is for the Sun Grand. Next, please.

(Testimony of Oscar Martin Braun.)

Mr. Byrnes: That is 52 now showing.

Mr. Savage: Where from?

Mr. Griswold: Will you identify it?

The Witness: This is Hiraoka Sun Grand orchard, the "T" stands for "tree," and "H" stands for "Hiraoka."

Mr. Griswold: That denotes the same point?

The Witness: The same point regarding the seed. Now, these are all duplicates of those.

Now, 7-20, the last day I visited to pick up fruit samples was 7-19, July 19th. May we show these? What was the last number?

Mr. Byrnes: 52. This is 53. [316]

The Witness: 53. Now, this group was picked on Saturday, July 19th, the last picking I made of any fruit from any of the trees. This was taken from Sun Grand orchard at Hiraoka's place. Now, Mr. Hiraoka, Harry Hiraoka, started picking his fruit a little bit earlier. The reason why he said he was doing that was because he had irrigated his trees and if he didn't pick his fruit he thought he would have more split pits, so he was going to pick a little earlier. So when I went around to get this fruit on the 19th this fruit was the fruit that was left on the tree, because there is always some fruit which the pickers leave, and I thought the fruit was typical. Next, please.

Red King fruit, 7-20, from the orchard, Hagler's.

Mr. Byrnes: Oh, may I have that number back, please.

(Testimony of Oscar Martin Braun.)

The Witness: May I bring out here the characteristic color which is so characteristic of this Red King mutation, which goes along with the general shape and size of the fruit, and I did find also that this general increase in size of the fruit was characteristic for this variety. Here we have the Sun Grand orchard at Hiraoka.

Mr. Griswold: Were those samples taken on the same day?

The Witness: Same day, 19th of July. Next, please.

Mr. Byrnes: This is 55 here.

The Witness: Sun Grand Kozuki, the fruit at the Kozuki orchard had a little more color, in fact it had more red [317] color than any of the other Sun Grand plantings. Here again, however, I wish to emphasize the elongated type of fruit, the uneven ripening of the fruit, and the fact that the fruit is different in shape.

Mr. Byrnes: I guess it won't make much difference, it is **backward**.

Mr. Griswold: Take it out and show it right.

The Court: It is upside down. This is the same thing you had on before.

Mr. Byrnes: It looks the same, but it is a different picture.

Mr. Shepard: What is the number?

Mr. Byrnes: 56.

The Witness: Red King.

Mr. Shepard: 56?

Mr. Byrnes: This is 56.

(Testimony of Oscar Martin Braun.)

The Witness: Red King. Next, please.

Mr. Shepard: Which orchard?

The Court: He doesn't know.

Mr. Savage: From which orchard?

Mr. Byrnes: Red King from the Hagler orchard.

The Court: All right.

The Witness: Is this 57?

Mr. Byrnes: This is 57. Would you like to see Sun Grand in the other machine? [318]

The Witness: Yes. Here again we have more orange color with the red, where you have a redder fruit in the Sun Grand, but coupled along with that you have a rounder fruit in the Red King than you have in the Sun Grand.

Mr. Savage: May we ask you to put that 57 on the same slide?

The Witness: Put 57 on the same slide.

The Court: All right.

Mr. Griswold: Reverse them.

Mr. Byrnes: These things work differently here.

The Court: The light is better on that one. Put it on the other slide, the light is better for comparison.

The Witness: Next.

Mr. Byrnes: 57 was last.

The Witness: 58. I wish to show sections of the Red King and the Tagus Sun Grand, and 59 I wish to show a composite picture of the different selections.

(Testimony of Oscar Martin Braun.)

The Court: All right.

Mr. Byrnes: 57.

The Witness: The Tagus Sun Grand, the Red King.

Mr. Byrnes: 58.

Mr. Griswold: Would you designate which is which?

The Witness: The Red King is the upper fruit here, and—can you get that a little more distinct?

Mr. Byrnes: That is all I can get. The machine should [319] be pulled back.

The Witness: I wish to bring out here the thickness of the pit, the diameter; the pits in the Red King are definitely more round and wider, thicker than the pit in the Sun Grand. I hope to bring that out here in this section of the fruit. Here we see again the typical shape of the two varieties, the Red King being more rounded, wider at the base; the Sun Grand being more truncated at the base and having a more acute angle at the apex.

Mr. Griswold: Does that picture, while you have that there, show the angle of the base, that is, the cavity where the stem grows out of?

The Witness: It does, and of course that is right here. This angle right here. The cavity here is deeper than is the cavity of the Red King.

Mr. Shepard: What is the date of that picture?

The Witness: Beg your pardon?

Mr. Shepard: Date?

The Witness: This picture was taken—I took that in, I think it was about the first week in Au-

(Testimony of Oscar Martin Braun.)

gust. I had to go to a shop, machine shop, to put my fruit through a saw to get that, it is pretty hard to do, and I did that—I think it was the fruit which was selected at the last picking, mature fruit, but I did it just to see what I could get out of it, because I was trying to, here again, look for differences [320] in these varieties. Next.

Here we have a composite set of samples of fruit from the Red King, Tagus Sun Grand, Kozuki Sun Grand, and Hiraoka Sun Grand. Now, here again the average fruit for the Red King was larger on the whole; it was more rounded, not so elongated which is shown here; the seeds being wider also, and larger, and that was borne out when I took some samples of 20 seeds of each of these different varieties, I took a random sample of seeds and weighed them, and got a greater weight for the Red King than I did for any of the other seeds, comparing the weight of the pit.

The Court: How much, in milligrams?

The Witness: Grams.

The Court: Grams?

The Witness: Yes, sir. Mr. Griswold has that information, I believe.

The Court: Well, if he has it, you have to testify to it.

Mr. Griswold: Proceed with the slides. Let's try to finish the slides first.

The Witness: I have four more slides. What number was the last number?

(Testimony of Oscar Martin Braun.)

Mr. Byrnes: 59.

The Witness: 59. 60, 61, 62, 63, 64, 65, 66.

Mr. Byrnes: This is 60. [321]

The Witness: I am not interested in the color here. I am interested in the general shape of the pits, the high star, the stem star. Note the sides of that. Note the width across the pit. Next, please. Red King.

Mr. Byrnes: 61.

The Witness: Next, please.

Mr. Griswold: Well, what is your comparison?

The Witness: Well, can we have those slides again? There is a note here, there is more width across these pits than there is for the Sun Grand.

Mr. Byrnes: I will put the other on the other projector.

The Witness: This distance is greater than this distance. The seed is—the pit is different; it shows a different characteristic in shape, and this is looking down on top of the seed. I stuck them in some clay, little pieces of clay. Next, please.

This is Kozuki orchard, Sun Grand pits. This was taken 8-2-58. Next one, please.

Mr. Savage: Was that 62?

Mr. Byrnes: This is 62 now showing, the first one. 63 now.

The Witness: Sun Grand from Hiraoka orchard, 8-2-58.

Mr. Griswold: These slides show the same——

The Witness: Yes, same characteristics. Next. Red King again. [322]

(Testimony of Oscar Martin Braun.)

Mr. Byrnes: 64.

The Witness: Next, please. Now, to go down the line for different characteristics again, I cracked the pits and I looked at the seeds, the kernel.

Mr. Savage: What number, please?

Mr. Byrnes: This is 65 now showing.

The Witness: If you stand, if you look at these carefully, these low striations in the seed, note the general length, the width, and where the apex tip is centered. Next, please.

Notice that these seeds appear to have a hooked apex angle there, and they appear to be shorter, they are not so long, which bears out in the length of the pits again, in the size of the pits. These characteristics are there, they are different, and these characteristics show here also an aid in determining one variety from another. Next, please.

Mr. Byrnes: Now, that's it.

The Witness: Let's see, now; what else do I have here.

Mr. Griswold: Mr. Braun——

The Witness: Oh, I have one more—three more slides I wish to show you, 67, 68 and 69.

The Court: All right.

The Witness: I wish to say here, your Honor, that more slides than these were taken, many of the slides were of [323] little value as far as presenting a case, but——

The Court: Wait a minute. Wait a minute.

The Witness: ——I tried to get certain things. This particular picture was taken of the original——

(Testimony of Oscar Martin Braun.)
of the ground at the original mutation Red King tree in the Hunter orchard.

Mr. Griswold: What date?

The Witness: The date was 7-19.

The Court: All right.

The Witness: It was the last day I made the visit.

The Court: All right.

The Witness: I was interested in this because—I was interested to see how much fruit dropped off the tree, was on the ground. Next slide.

This picture was taken under one of the trees at the Tagus ranch, showing the amount of Sun Grand fruit under the tree on the ground, showing here again a characteristic that the Sun Grand variety has a tendency to drop more readily near the end of the season than the Red King variety. Next, please.

Here is another picture showing the fruit on the ground.

Mr. Griswold: Which orchard?

The Witness: That was also in the Tagus orchard.

The Court: All right.

Mr. Griswold: You say those are not all the pictures you [324] took?

The Witness: Well, I have other pictures here, but I question their value as far as I am concerned.

Mr. Griswold: If the Court please, I suggest this is a good breaking point here.

(Testimony of Oscar Martin Braun.)

The Court: Yes, I was waiting for the opportunity. All right, gentlemen. Two o'clock.

(Thereupon, at 12:25 p.m. a recess was taken until 2:00 p.m. of the same day.) [325]

Afternoon Session—2:00 P.M.

The Court: All right, we will proceed, gentlemen.

OSCAR MARTIN BRAUN

a witness for the defendant, having been previously duly sworn, was examined and testified further as follows:

Direct Examination

(Continued)

By Mr. Griswold:

Q. Mr. Braun, in addition to the photographs which you have testified to, you also collected samples of the fruit? A. Yes, sir; I did.

Q. And you kept that in what place?

A. Well, I kept samples at the Hagler Packing Company storage place, and we also took some samples that were frozen, Mr. Houk referred to me a place in Visalia. Then I also took samples to our freezing unit at the college. I have a class in fruit entomology and we use samples in there.

Q. Do you have any samples that are not frozen?

A. Yes, sir; I do.

Q. And from which orchard?

A. I have samples which are not frozen from all of the orchards.

(Testimony of Oscar Martin Braun.)

Q. And in your opinion, is there a difference in the frozen and non-frozen samples? [326]

A. Yes. I will say that, as was mentioned before by previous witnesses, that frozen fruit takes on different characteristics. However, the general shape and appearance of the fruit from the standpoint of the shape would remain similar, unless it happened to break down. The internal part of the fruit upon freezing breaks down quite rapidly.

The Court: All right.

Q. (By Mr. Griswold): I am going to show you, Mr. Braun, Plaintiff's Exhibit 8, and ask you to examine this photograph. Could you, in your opinion, based on what you know about nectarines, appearances, varieties, make an identification of the fruit depicted in that picture absent the designation, of course, that is on the picture?

A. No, I don't think I could, to be sure.

Q. Why not?

A. Well, it is very difficult—I mean the—it is possible when you consider the variation that we find in all fruit varieties to be sure that you have a typical representative sample first, and this certainly doesn't show up as Red King, as I know it.

Q. Leave that open. I set on the witness stand a lug box containing some fruit, and will you please identify the fruit, where you——

A. Well, I have—— [327]

Q. ——got it, and where you preserved it?

A. I have, in the bottom of the box I have written Red King from the original tree, picked on

(Testimony of Oscar Martin Braun.)

July 19, 1958, and that looks typical to me for the variety Red King.

The Court: Just a minute. All right. I notice you have different sizes.

The Witness: Yes, there are some different sizes that you will find. However, I don't think this variety belongs in there, although it could be.

Mr. Griswold: Could we mark this?

The Court: Where are you going to keep them? They are going to spoil; you can't keep an exhibit like that. We have no refrigeration provisions in this building.

Mr. Griswold: Now, the small basket, is that also from the original tree?

The Witness: The small basket is from—I have it tagged here from the Red King original tree, yes.

Mr. Griswold: If the Court please, we appreciate the transitory nature of this evidence, but we do feel it is the best evidence, the economic aspect, namely the fruit itself, and we have comparative samples from the other trees.

The Court: Well, the point is, however, they will spoil and you have to throw them out. How can you keep them?

Mr. Griswold: Well, the witness has informed me that he can keep them for several more months in refrigeration. [328]

The Court: Of course, we can identify a small number and trust him to keep them in a refrigerator for a possible appeal.

(Testimony of Oscar Martin Braun.)

The Witness: I can keep them a few more months.

The Court: This wouldn't be a regular exhibit; you couldn't send this up to the Court of Appeals in San Francisco a year from now in order to have a sample. I have no objection to receiving some, and they will probably remain sweet for awhile. As I said, the only fruit I ever had involved—it seems to me that the witness takes a bit of fruit apart, takes pictures, and describes them in full, why, that would be sufficient. The witness can describe them.

The Witness: Well, this——

The Court: All I am saying is, I don't see how we can make an exhibit of them. The record will merely show that the fresh fruit was exhibited to the Court, and the Court couldn't receive them as exhibits because we have no way of storing them to preserve them, even during the course of the trial.

Mr. Shepard: I would go along; we have no objection to the Court observing them here in the court room, and all parties.

Mr. Griswold: For convenience of reference, could I mark these for identification?

The Court: You know the old joke, the jury consumed [329] the evidence. We might all consume the nectarines. I think that is about all, and the witness can describe them.

The Witness: Well, the——

Mr. Griswold: First, I would want to mark this then for identification.

(Testimony of Oscar Martin Braun.)

Mr. Shepard: Well, can't counsel just set his exhibits along the rail here, and he can contrast as he goes along.

Mr. Griswold: I want to take one at a time, but I will do that.

The Court: All right.

Mr. Griswold: Could we mark that as an exhibit, so we can refer to it?

The Court: I will tell you what you might do, if you have a cellophane bag, we might take one and use it as a sample.

Mr. Griswold: We could get some.

The Court: You can tie it up and have it as an exemplar and throw it out when it gets moldy. Get some of those little cellophane bags. All right, let's go on. Let's not take too much time. Then we will take a representative sample of each of them and put them in a bag, and that will be the exhibit, rather than the lug.

Q. (By Mr. Griswold): I show you a second collection of fruit, and ask where you obtained those? [330]

A. Well, I obtained these from the Red King planting in the Hagler orchard.

The Court: Pick the best one, pick one of each, pick a representative one from each. All right.

Q. (By Mr. Griswold): I show you another box of the fruit, maybe we better dump these, and——

A. This is from the Tagus Sun Grand orchard, beginning to spoil.

(Testimony of Oscar Martin Braun.)

The Court: Those have begun to spoil.

The Witness: That is typical, I would say that is typical fruit for that planting.

Mr. Griswold: We will have the bags, your Honor, and after the bags get here we will take a representative sample.

The Court: All right. Have you more?

Mr. Griswold: We have some more from the Kozuki and the Hiraoka.

The Court: All right. Put them on top of each other.

Mr. Griswold: From the Tagus Sun Grand. Perhaps we can mark this as the next exhibit, the Tagus.

The Court: We will pick one from each and put it in a sack and mark it.

Q. (By Mr. Griswold): Now, Mr. Braun, directing your attention to the fruit from the original tree, Red King, will you take one [331] of the fruits and explain the characteristics of that fruit as you found them in your investigation?

A. Well, I found that this color and shape for the fruit is typical. It has a tendency to be rounded; it has a tendency to have this red color, which is to my knowledge typical of Red King; and the seed which is shown here is typical from the standpoint of the Red King variety being full and roundish and not elongated. It has light pinkish color around the pit cavity, not very much, but light pinkish. The cavity itself is wide and the shoulders are flared and rather rounded.

(Testimony of Oscar Martin Braun.)

The Court: How would you characterize the meat of the fruit?

The Witness: Well, I——

The Court: Firm?

The Witness: Yes, the meat is firm, your Honor. I would say it is still firm.

The Court: You tempt me. I might eat some of them; I am very fond of them.

The Witness: It loses its flavor but I don't think it would make you sick to eat it. So I would say that this is a normal fruit.

Q. (By Mr. Griswold): Now, in your test you also examined the pits and the seed of the [332] pits? A. Right.

Q. And also the subjective test of tasting the seed?

A. In tasting the seed for bitterness, which is a qualitative factor and would vary on the person's ability to recognize that bitterness, but the test that I made and tasted, the seed that I tasted were more bitter from the fruit of the Red King than they were from the pits from the Sun Grand.

The Court: It is not edible, so what significance does the fact it is bitter have?

The Witness: There again, your Honor, there is a variation which is recognized as being important in discerning one variety from another, and if we go back to that bulletin on the standards of classification, I believe that would be listed there, and that is recognized by systematic pomologists as a factor which is useful, and again, adds to those

(Testimony of Oscar Martin Braun.)

which may help to determine one variety from another. And I believe, if I am right, I think it is the amygdalin, is it, in the seed that causes that bitterness. I believe it is amygdalin sulfate.

Q. (By Mr. Griswold): Directing your attention to the Tagus Sun Grand variety which you have in exhibit the third, I believe——

A. Well, I have in front of me——

Q. ——will you pick out a typical variety? [333]

A. I have in front of me some typical representative samples of the Sun Grand from the Tagus ranch.

Q. And will you——

A. This fruit was picked at random, and—I'll get a knife here. One of the first things that is characteristic for this variety is, as I mentioned, it is truncated at the cavity end of the fruit. It has sharp shoulders that are not wide. It also has a normal apex tip to it. It also has a normal unequal sides to it. It is fuller on one side than it is on the other. The color is characteristic, orange yellow with a bronze type of an overcast. These characteristics are normal for this variety.

The Court: How about the pit?

The Witness: Well, this pit, I think, shows some variation from some of the others we looked at, but I think it is a little bit longer than the ones from the Red King. There is some pink around the seed.

The Court: All right.

(Testimony of Oscar Martin Braun.)

Q. (By Mr. Griswold): Mr. Braun, I hand you a plastic container and ask you if you could take several representative samples of the Sun Grand from the Tagus ranch.

A. We should mark that with something.

The Court: Well, the Clerk will tie it and give it a number. [334]

Mr. Griswold: We will offer it in evidence.

Mr. Shepard: We will object to the offer in evidence, for the reasons your Honor stated. I don't object for identification.

The Court: Well, we will receive it. Let it remain as it is. It will serve until the case is closed.

The Clerk: Exhibit F.

(The nectarines referred to were marked as Defendant's Exhibit F, and were received in evidence.)

Q. (By Mr. Griswold): Now, can you pick out the same number of representative samples of the Red King?

A. I will just take three right in front of me here. They are typical, they are from the lot that was taken representing the variety.

Mr. Griswold: We will offer in evidence three from the box the witness designated—

The Witness: Red King original tree picked on July 19th.

The Clerk: What was the first?

Mr. Griswold: Sun Grand from the Tagus ranch.

(Testimony of Oscar Martin Braun.)

Mr. Savage: What exhibit is that?

The Clerk: The second will be G, the Red King.

(The nectarines referred to were marked as Defendant's Exhibit G, and were received in evidence.) [335]

The Court: That is from the Hagler ranch, is that correct?

The Witness: The Sun Grand is from the Tagus Ranch, and the Red King is from the original mutation tree on the Hunter ranch.

The Court: On the Hunter ranch, all right.

Q. (By Mr. Griswold): Now, you also have another box and you testified that that was from the trees on the Hagler ranch, that Mr. Hagler had propagated from the original tree?

A. Yes, sir.

Q. Will you pick out three representative fruit?

A. I will say here again——

Q. That has got a mold on it.

A. Some of these are beginning to spoil.

Q. Take just two of them then.

A. This fruit won't keep forever, I know that.

Mr. Griswold: We will offer in evidence——

The Court: All right, it may be received as I, and those come from?

The Witness: Those come from the Red King planting in the Hagler orchard, the Hagler tree. They were picked on July 19th.

Mr. Savage: Is that H or I?

The Clerk: The three bags of fruit, F, G, H.

(Testimony of Oscar Martin Braun.)

(The nectarines referred to were marked as Defendant's Exhibit H, and were received in evidence.) [336]

The Court: Oh, I am sorry. It was my error; I thought we started with H. All right.

The Clerk: This is from which ranch?

The Court: This is from the Hunter ranch.

Mr. Griswold: The last exhibit, if the Court please, was from the Hagler ranch.

The Court: Hagler, I am sorry. The other one was from the original sport, as it has been called.

Q. (By Mr. Griswold): You also have samples of both of the other trees you testified to this morning? A. Yes.

Q. They wouldn't add anything, or would they, Mr. Braun, to the representative samples which you have?

A. I don't think they would. I think they would simply confirm the differences in the general characteristics between the two fruits.

The Court: All right.

Q. (By Mr. Griswold): This morning you testified that you had weighed some of the seeds from the different samples?

A. Yes, sir, I took a random sample, I think I took ten pits from each of the different lots and weighed them to confirm my information that the Red King pits were larger.

Q. And you made a report on your findings of the weight [337] in grams? A. Yes.

(Testimony of Oscar Martin Braun.)

Q. And am I correct that you have before you a result of that work showing which trees?

A. Well, I have samples that were taken from the various trees in the—which were selected and also from the orchard.

Q. And what were your findings on that?

A. For the Sun Grand varieties from the Hiraoka tree ten seed weighed 63.5 grams; random samples from the Hiraoka orchard ten seed weighed 63.3 grams. The Sun Grand variety from the Tagus tree, ten seed weighed 57.2 grams; from the Tagus orchard ten seed weighed 68.1 grams. From the Sun Grand of the Kozuki tree ten seed weighed 58.9 grams, and from the Kozuki orchard ten seed weighed 62.4 grams. From the Red King tree at the Hunter ranch ten seed weighed 72.75 grams; from the Red King tree, from the Hagler tree, ten seed weighed 67.7 grams, and from the Hagler orchard ten seed weighed 72.1 grams, which shows considerable weight—well, let's see, there is 63.5 is the largest weight as against 72.75 grams, which is considerable. I think it is sufficient to be recognized as evidence indicating the difference between these seeds.

Mr. Griswold: We will offer in evidence the report.

The Court: It may be received as a summary. What significance has the weight—— [338]

The Witness: Well, your Honor——

The Court: ——as identifying a particular fruit?

(Testimony of Oscar Martin Braun.)

The Witness: We recognize in the study of varieties there is a variation in the size of the pits and this is a significant factor, and what I wanted to establish was that the Red King pits through the character of the pit showed more weight than the Sun Grand variety did.

The Court: I see. All right. Is that one of the factors which authorities recognize—

The Witness: It is a fact which—

The Court: —and take into consideration in comparing trees?

The Witness: —in my judgment, is a factor which should be considered along with the others.

The Court: All right.

Q. (By Mr. Griswold): Did you make any other measurements in your study?

A. Well, yes. I made measurements of various kinds.

Q. You measured the pit, did you not?

A. Beg pardon?

Q. You measured the length and width of the various pits? A. Yes.

Q. And did you find anything significant there?

A. Well, I believe I found a difference there also. [339] I don't have the data on hand to look at, to refresh my memory, but I believe I did make some measurements of the length and width.

Q. I show you a summary entitled Data on Pits, and ask if you prepared that?

A. Yes, I did.

(Testimony of Oscar Martin Braun.)

Mr. Shepard: Were you going to introduce that, counsel?

Mr. Griswold: Only as a summary.

Mr. Shepard: Well, wouldn't it be nice if I could see it, too?

The Court: Well, the witness maybe testified to this before and that may be offered. I think you should see it.

Mr. Shepard (After examining): Go ahead.

Q. (By Mr. Griswold): What were your findings in that regard?

A. Well, in this regard, the length of these samples from the standpoint of millimeters, the Kozuki Sun Grand seed, the pits averaged 33 millimeters long and 27 millimeters wide; the characteristics were mostly coarse from the standpoint of the pit grooves and the line grooves. Kozuki Sun Grand orchard, that was from the tree, were 35 millimeters by 28 millimeters wide, and the characteristic markings were mostly coarse. The Hiraoka Sun Grand tree, 33 millimeters long and 25 millimeters wide, many of the markings were medium and coarse. Hiraoka Sun Grand orchard, 35 millimeters [340] by 26 millimeters, and the markings were mostly coarse, some medium. Red King original tree on the Hunter ranch, the length 34 millimeters and 29 millimeters in width, the markings mostly coarse, some medium. This brings out the difference there that was noticed in the previous presentation, that these pits are wider. The Red King graft 37 millimeters by 28 millimeters,

(Testimony of Oscar Martin Braun.)

mostly coarse, some medium. The Tagus Sun Grand tree 36 millimeters long, 25 millimeters wide, about even coarse and medium marking. The Tagus Sun Grand orchard 35 millimeters by 24 millimeters, mostly coarse with some medium grooves.

Q. So that that—

A. So here again we have an indication of a variance in the dimensions of the two varieties on the basis of their pit measurements which I would like to—I think this is of importance and would like to present.

Q. Now, in addition to a physical study of the characteristics which you have described, did you also prepare certain material and charts relative to the pack-out, at the packing house, which indicates the relative sizes of the various Sun Grand and Red King?

A. Yes, I did. There is a carry-through of course, in the larger fruit we find larger pits, and this characteristic, of course, carries through in the larger fruit, and from a farming point of view it is very important to check [341] the pack-out sizes of the different varieties, and so I contacted the packing house foreman at the Barr Packing Company, and asked him if he would give me a statement on the pack-out for the Sun Grand nectarines on Mr. Kozuki's ranch, which he did, and I also obtained a packing house statement from Mr. Burns on the Clinton Hagler pack-out of Red King. And I also obtained a packing house state-

(Testimony of Oscar Martin Braun.)

ment from the Tagus ranch foreman, Mr. Keegan, who gave me a pack-out statement, and in those statements I have the date of picking, the number of boxes of fruit picked, and the pack-out in sizes for the entire group of fruit.

Q. Now, when you speak of size of pack-out, what do you mean?

A. Well, from the standpoint of marketing fruit we have certain legal requirements and sizes that are allowed, vary three-eighths of an inch in diameter from one size to another.

The Court: Those are regulations of the State Board of Agriculture.

The Witness: Yes, and so many fruit to a box; in other words, if we say 60, that means 60 peaches to a L.A. lug, Los Angeles lug, or to a lug box.

Q. (By Mr. Griswold): In nectarines, starting from the littlest grade, up to the biggest grade, what is the designation? [342]

A. Well, might be 96, 88.

Q. That is the larger?

A. The smallest ones, going from the smallest ones up to the largest one, 80, 74, 70, 64, 65, you find various numbers depending on the size and kind, in order to make a tight pack, going down to 48, I believe, for the large size fruit.

Q. Mr. Braun, I show you two series of charts, three in number, these are duplicates, are they not?

A. I think so, yes.

Q. Now, showing you this first chart, pack-out size 60, 64, 65 to 48.

(Testimony of Oscar Martin Braun.)

Mr. Griswold: First, if the Court please, I would like to offer these and then ask the witness questions as to what they represent.

The Court: Is that something he prepared?

Mr. Griswold: Yes. I will offer in evidence these three charts.

The Court: Go ahead.

The Clerk: All as one.

Mr. Griswold: No, we better mark them in order.

The Court: Give them a letter, and mark them 1, 2, 3.

Mr. Griswold: If I could have some thumb-tacks.

The Clerk: J-1, -2 and -3.

(The documents referred to were marked as Defendant's Exhibits J-1, J-2 and J-3 and were received in evidence.) [343]

The Court: I think you will have to move it, you have a better angle the other way. All right. You may stand up, Mr. Braun.

The Witness: I would like to bring out in these charts that one of the important features in any variety is the size of the fruit from the standpoint of the pack-out of the farmer. So I took all these different boxes and different sizes, and found the percentage packed out for the different sizes. Under the "K" column here, we have the Kozuki Sun Grand——

Mr. Savage: You are referring to what one?

(Testimony of Oscar Martin Braun.)

The Witness: This is the exhibit showing—

Mr. Griswold: J-1.

The Witness: —the pack-out sizes 60, 64, 65 to 48. In other words, this is the larger fruit in any nectarine pack out. Now, we find from the Kozuki orchard—and I want to make this statement for the record that all three of these farmers are good farmers, very conservative.

Q. (By Mr. Griswold): They are representative.

A. They are representative. Now, I have 15.91 per cent of the pack-out from Mr. Kozuki made these sizes; from the Tagus ranch 13.9 per cent of the pack-out made those sizes; from the Clinton Hagler ranch 37.20 per cent made those pack-outs, which shows a much larger percentage of the large [344] fruit from the C. L. Hagler Red King planting.

Q. All right, directing your attention now to J-2, Exhibit J-2.

A. The J-2 exhibit, I took the average size fruit, which includes the 70, 75 and down to the large fruit, the real large fruit, 48, and here from the Kozuki Sun Grand planting we have 53.54 per cent of the pack-out was in these sizes; from the Sun Grand at the Tagus ranch we had 58.28 per cent from these sizes; from the C. L. Hagler Red King planting we have 77.5 per cent of the total pack-out in those sizes, which again, I claim, is a significant difference in the size of the fruit, and would enhance the market value of this fruit.

(Testimony of Oscar Martin Braun.)

Q. Now, directing your attention to J-3, just tell us what the chart shows.

A. In J-3, I wanted to bring out the reverse point of view, so this chart shows the small sizes of the fruit, what percentage of the fruit do we find in small sizes, below average. Mr. Kozuki's planting of the Sun Grand we have a percentage of 45.61 per cent of the fruit was below average sizes, 80 to 96. From the Tagus ranch we find 41.71 per cent which was below this average size. From the C. L. Hagler ranch we find only 22.26 per cent of the fruit was of these small sizes. So here again we find a significant smaller percentage of the fruit of the Red King in this small size [345] fruit bracket.

Q. For the record, I think you misread the percentage. A. 22.6 per cent.

Q. And these records was the entire picking of those entire orchards? A. Yes, sir.

Q. Throughout the entire season?

A. Yes, sir.

Q. Of which year? A. 1958.

Mr. Griswold: Just sit down, please.

The Court: What economic or other significance attaches to a comparison of that character?

The Witness: Your Honor, I would—you mean what significance is there beyond an economic significance?

The Court: Yes.

The Witness: We have variations which are in-

(Testimony of Oscar Martin Braun.)

herent in the sizes of the fruit. May I give you several varieties of nectarines which were introduced and never made the grade because the fruit size is small, the Philips nectarine which was developed at Davis, The Fire Glow——

The Court: You don't need to turn to me. You better turn the other way. My eyes show signs of abuse over many years but my hearing is good.

Mr. Griswold: Slow down a bit, Mr. [346] Braun.

The Witness: Fire Glow. Those were good nectarines but they didn't have the size to them, and the consumer buys through his eyes and likes to buy the highly colored large nectarine, and that is an important characteristic which is also a varietal difference characteristic, because we have small nectarines and we have large nectarines.

Q. (By Mr. Griswold): I show you, Mr. Braun, Exhibit G, the Hagler Red King, and also the Exhibit F, the Tagus Sun Grand, and ask you if you are able to approximate the sizes of the two varieties?

A. Well, let's see. I have to do a little thinking here. I think two and a half is about 70. I think that is about what it is. These would be in the 80's I am sure, and I think that these would probably be in the 70's.

Q. So that a 48 is substantially larger than these in Exhibit G? A. Correct.

The Court: Let me ask you this question: As

(Testimony of Oscar Martin Braun.)

they are a deviation of the peach, we assume that people who eat them compare them with peaches, and peaches are a large fruit, but as fruit is sold now in most markets by weight, isn't there an economic disadvantage in having to use more boxes in shipping by having larger fruit?

The Witness: Well, your Honor, the high quality markets, [347] such as the Farmers Market in Hollywood, or any market where you have the above-average trade, prefer to buy, they associate quality with the size of the fruit; now, for a man with a large family it would be more economical for him to buy small size fruit. The quality of the fruit is the same, but the size factor is different. In other words, we can have good small fruit as well as good large fruit. It seems that the average consumer, if he has a choice, will take the larger size.

The Court: Eye appeal?

The Witness: I think you might call it that. Your Honor, I was interested in this point——

Mr. Griswold: Sit down, please. I didn't ask you a question, did I?

The Court: No, no; he wants to make a point. Go ahead. What were you going to say?

The Witness: Well, I was interested in this point strictly from the economic value, because I also have a farm of my own and it has to pay the bills, and you get more money if you are shipping large fruit than you do if you are shipping small nectarines, especially since we have the Nectarine Marketing Agreement, which limits the small sizes,

(Testimony of Oscar Martin Braun.)

and many of these small sizes cannot be shipped, your Honor, because they are too small.

The Court: I see. All right. [348]

Q. (By Mr. Griswold): You are identifying the sizes coming from the Sun Grand. Incidentally, are you doing any plant breeding at the present?

A. You mean—we do with our students at college, they work on special problems with Dr. Weinberger, or did you mean personally?

Q. On your own farm.

A. Yes; I have engaged in plant breeding for a number of years.

Q. And in nectarines? A. Yes.

Q. How long have you been trying to propagate nectarines?

A. Well, I have some crosses that I am waiting to get some F-2 generation from this next season, and I also have some nectarines seeded out, and I have planted thousands of seeds to find out what I could about the possibilities of getting some improved varieties. However, I have—I guess, I just have not found anything to be worth saving so far, at least.

The Court: You haven't developed your experiments? You are in the experimental stage, you haven't produced——

The Witness: I haven't produced.

The Court: ——a tree that would produce fruit that is a deviation? [349]

The Witness: That would be acceptable. I mean,

(Testimony of Oscar Martin Braun.)

we try to have pretty high standards before we put a new variety of fruit on the market.

The Court: All right. This shows my ignorance, does Fresno State have a complete agricultural department?

The Witness: Yes; we do. We have over a thousand acres that we farm, and in our horticulture department we have——

The Court: Do you give a degree——

The Witness: In agriculture.

The Court: ——which is recognized by the University of California?

The Witness: Yes, sir.

The Court: Although you are independent?

The Witness: No; we——

The Court: Are you a part of the system?

The Witness: We are independent, we are not part of the University system as yet.

The Court: You still have your separate board of regents?

The Witness: State Department of Education.

The Court: Yes. Let's see, I think there are only three left, or two, I think you and San Diego State are the only ones, I don't know about San Jose State, the only ones not a part of the University system. But they recognize, if a young man took a degree in agriculture and wanted to get a [350] Master's he would be given full credit for his Bachelor of Science?

The Witness: Yes; we have transfer students

(Testimony of Oscar Martin Braun.)

at Davis and at Berkeley now from Fresno State College, who are engaged in post graduate work.

The Court: I see. All right. I am interested in that. My two children are graduates of the State University. One of them has gone to teaching, but he is a nuclear chemist. I am always interested in the high standards of California schools. All right.

Q. (By Mr. Griswold): I want to show you Defendant's Exhibit A, being plant patent number 1718. As far as coloration, am I not correct the color is likewise a very important part, as far as the customer eye appeal? A. Yes; it is.

Q. And I notice that in your patent, in the Hagler patent, that there is reference to certain plates, that is—is that some standard of the——

A. Yes; in order to agree on colors, the authorities have put out color dictionaries, and I believe I used the color dictionary by Maertz and Paul in comparing the colors which were used.

Mr. Savage: What was the name of that?

The Witness: Maertz and Paul. I believe I have a copy [351] from the library there with me.

Mr. Savage. How do you spell it, please?

The Witness: M-a-e-r-t-z and P-a-u-l.

The Court: I think there is a reference in the defendant's patent.

The Witness: Yes.

Mr. Griswold: Do you have that book in court?

The Witness: Yes; I do have.

Mr. Griswold: I don't want to——

(Testimony of Oscar Martin Braun.)

The Court: No, no; let's not get into that. I may say that counsel and I were at cross purposes today when we were talking about admission, what you had in mind is medical books. What I had in mind is, with medical books the rule is you can't read from books.

Mr. Shepard: I admit, your Honor, that I was thinking of those books.

The Court: Well, you were right. Even with medical books, the rule is—I checked the matter at noon, because in one of these cases I had in front of me the other day, and even a doctor testifying to a medical matter may give his authority, and then may be confronted.

Mr. Shepard: Right.

The Court: However, when it comes to patents, there is greater latitude because the field is so broad, it isn't so narrow as the field of medicine, and a greater latitude [352] is allowed, although I do believe that indiscriminate reading of authorities would be bad practice, and in the case I referred to, it is true that those were given to show the invalidity of the patent, but the expert testified first and merely used that to bolster his opinion, so as a practical proposition I believe for the present I would rather not have anything in the record except the reference, and if you want to check and satisfy yourself you may do it on cross-examination, because this examination is pretty extensive, and I don't want to go into reading of experts at the present time.

(Testimony of Oscar Martin Braun.)

One of the cases I had in front of me the other day, that latest case is *Gluckstein v. Lipsett*. It is a Court of Appeals decision written by, I think, Judge Bray, yes, of the First Division, and he sums up the law on the subject and reviews all the other cases, but he is dealing with medical books, and he says you can't read from medical books, but even a doctor testifying as to medical matters may give his authority, and be cross-examined. Did I give the reference to that, Miss Schulke?

The Reporter: No, you didn't.

The Court: It is 93 Cal. App. 2d 391. Incidentally, as a former Superior Court Judge I always look at the end to see if it has the approval of the Supreme Court, because it is not meaningless like certiorari denied in the Court of [353] Appeals when it merely means that four judges didn't think it was of sufficient importance to bring it up. But when the Supreme Court of California says "hearing denied" then you are absolutely sure that it approves the ruling, and if it approves merely the conclusion without the ruling it says so. So this opinion in the *Gluckstein* case has the approval of the Supreme Court because a hearing was denied with only one judge voting for a hearing. It is a very interesting malpractice case. And the other case, the leading case before that is *Rae v. California Equipment Company*.

In the *Lipsett* case the court allowed the experts to read, or allowed Mr. Belli to read excerpts from

(Testimony of Oscar Martin Braun.)

books to his expert, and while the court held it was error to do it on direct examination they said it was harmless error. But in *Rae v. California Equipment Company*, which is 12 Cal. 2d, an opinion written by the late Judge Langdon, who was my Judge in Stanislaus County many years ago when I practiced there, Judge Langdon did just the opposite. A man was allowed to refer to his sources for his opinion, and that was a medical case too, and then when it came to cross-examination the court didn't allow cross-examination as to the exact wording of the record, and they held it was error.

But, as I say, there are many things that are permitted in a patent case as to various issues which wouldn't be [354] allowed in other cases. For instance, years ago, in cases involving similarity of names, confusion of source, I have allowed polls taken on the street, by being shown, for instance, the Sunbeam lamp and asking the person "what does that convey to you?" I also allowed a poll to be taken by a professor at U.S.C., who submitted a question relating to Sunbeam products to his students. So, as a matter of fact, the practice has become so common since that there is an article in last year's *Harvard Law Review*, "The Pollsters Go to Court." That is a rather frivolous title for the *Harvard Law Review*, but it carries the point.

So I don't think we need to go into those. They are available and if counsel wants to check the reference he may do so. Let's go on now.

(Testimony of Oscar Martin Braun.)

Q. (By Mr. Griswold): Mr. Braun, you are familiar with the Federal-State Market News Service? A. Yes, sir, I am.

Q. As a matter of fact, in your classes you receive all copies of the Federal-State Market News Service?

A. Yes, I do, because I feel it is important for my students to know what the various prices are, what the various varieties bring on the auction market, on the various markets.

Q. For 1957 the United States Department of Agriculture [355] has prepared an auction price summary on nectarines, has it not? .

A. Yes, sir, it has.

Q. I will show you a document entitled Federal-State Market News Service, Auction Price Summary, Nectarines, 1957. February, 1958, the date, consisting of some 25 pages, and ask you if that is one of the reports which you received in the normal course from the Federal-State Market News Service?

A. Yes, it is. We receive reports similar to this on plums, apricots, peaches, and other varieties of fruit.

Q. That document there, however, is devoted entirely to nectarines?

A. This report is entirely on nectarines, yes, sir.

Q. And does it have a summary as to the average price received for Sun Grand nectarines in the State of California during the harvest season and marketing season of 1957?

(Testimony of Oscar Martin Braun.)

A. It does, on page 4, table 1, it gives the seasonal weighted average auction prices by varieties.

Q. And does that bulletin also give the average price received on the auction market for a variety marked Red King for the season 1957?

A. Yes, sir, it does.

Q. And where does that appear?

A. Well, that appears on page 4, table 1, and it reads 1957, 2,320 lugs of Red King, which sold for \$4.74 market [356] average.

Q. \$4.78? A. \$4.74.

Q. And what was the average according to that summary for the Sun Grand?

A. Sun Grand, listed below it, 45,731 lugs, 1957, established \$4.18 a lug.

Mr. Shepard: What page are you reading from?

The Witness: Page 4, table 1.

Mr. Griswold: We will offer in evidence the publication of the Federal-State Market News Service.

The Court: I don't think we ought to encumber the record with the entire publication. We can mark it for identification.

Mr. Griswold: Just that one page, your Honor.

The Court: If you only want one page, then I will receive it, unless you can spare it.

The Witness: We have extra copies.

The Court: Then we will just mark that page.

(Testimony of Oscar Martin Braun.)

Mr. Griswold: Page 4, and there is a pencilled line where Sun Grand appears. You put that there, did you not?

The Witness: Yes. Well, I thought that was significant because it shows a higher market return for the Red King, which because of its color and size and eye appeal is desired more by the people in the market. [357]

The Court: Wouldn't it be scarcity and novelty?

The Witness: It could be, there are many factors.

The Court: You had what, 2,300 against 45,000 of the other kind?

The Witness: That is true.

The Court: Don't people always want to buy something new? At least the advertisers think so, the way they blatantly shout everything over the air all the time. All right.

Mr. Griswold: No further questions.

The Court: When I made that statement, don't think I meant to cut you short. I merely am trying to organize our time. Suppose we take our afternoon recess now.

(A short recess was taken.)

(The page of the bulletin referred to was marked as Defendant's Exhibit K, and was received in evidence.)

The Court: All right, Mr. Braun.

(Testimony of Oscar Martin Braun.)

Mr. Shepard: May I ask the privilege of having the color slides again, to cross-examine the witness?

The Court: You designate which you want.

Mr. Shepard: Yes, I will.

The Court: Certainly. Get your assistant. You call the number. You don't want the whole series shown, do you?

Mr. Shepard: No, I would like to ask about some of them, your Honor. [358]

The Court: All right. You designate which they are and we will have them shown. Let's use the smaller one, it seems to give a better light. Move the other one away.

Cross-Examination

By Mr. Shepard:

Q. Now, let me ask some preliminary questions. It is all right, right there, Mr. Braun. Will you tell me how these photographs were taken? Will you describe them?

A. I will have to answer that this way, that the photographs were taken with a 35 millimeter camera in each case, which was on a tripod at a regulated distance. The ones that were close up were taken with artificial light film, and the ones of the fruit which was harvested during the month of July was taken with a daylight film, here again with a tripod, and we used Exakta 35 millimeter camera. Mr. Bates, who took the pictures inside

(Testimony of Oscar Martin Braun.)

used a Practica camera, which was also on a tripod and definitely regulated as to height.

Q. And you took these pictures in a series, where you show a Sun Grand and a Red King, for the flower type, you put them in series. Now, those series were all taken at the same time in each case?

A. As far as I know, yes. When I selected the material, that is, I set it up for him, and all he did was take the [359] pictures.

Q. Would the camera be changed in its position on the tripod as between series?

A. Not that I remember.

Q. And would the focus or the setting of the camera be changed between these pictures you have shown in series here? A. I don't think so.

Q. And you would have observed that in the case where another individual took the picture? You would have observed whether they changed the setting or not?

A. Yes, I think during the series that would be important, because we tried to keep everything controlled as much as we could.

Q. Now, a word about ripeness. Of course, we have not tasted the fruit, but does color indicate ripening to some extent? A. Yes, it does.

Q. If we sliced the fruit in half when it was green, we would see a green colored flesh, or a white colored flesh, what would it be?

A. If you slice green fruit, if the fruit were yellow it would have a lighter color if it were green.

(Testimony of Oscar Martin Braun.)

Q. One more thing, the samples that you took for these pictures, in each case you attempted to take random samples? [360]

A. Right. In other words, you can select anything you want in varieties if you are looking for a specific thing, but the sample would be void, would be useless if I did that. I had to take random samples. That is the way you have to do it.

Q. When you, for instance, were taking a picture of a bud, or ripe fruit, how would you choose those samples?

A. Well, what I did, for instance, when I had them in the large box, I just took what I wanted and that was it. I didn't look at the fruit specifically and say "this is pointed, I will take this one" and "this is round, I will take that one." In other words, I tried to take them just as they came.

Q. You picked them out blind?

A. Well, yes.

Q. And were any of these pictures of fruit, whole fruit, taken out in the field where you picked them right off the tree, or did you pick a box and take them back to photograph?

A. Yes, what I did, on the fruit specimens, since I was working on week ends, and my son, while he was home in July, why, we took those pictures at home. I would pick them on Saturday, and by Sunday we would have all of our pictures. That was the procedure we followed.

Q. May we have picture E-12, and then E-14?

(Testimony of Oscar Martin Braun.)

There was [361] a skip in sequence there. Is that the proper focus now?

Mr. Byrnes: Looking at the print is the best way to tell. That is about as sharp as we can get.

Mr. Shepard: Now, it is pretty hard for me. I have never seen these pictures before.

Q. Would you look at the Red King there, taken just before ripening on June 28th?

A. Right.

Q. And would you note the size? Now, I may turn out to be all wrong, particularly with reference to the ruler there. I think at the time we were showing them on two slides and had E-14 on the other slide, I mean the other screen at the same time. Could I do that just in this one instance?

Mr. Byrnes: Yes.

Q. (By Mr. Shepard): These are random samples of sizes, you picked them blind, as you say, figuratively speaking. Which, in your opinion, is the larger size?

A. Well, apparently from the—in this particular case, number one over here appears to be slightly larger, but I think that this is a variation—it appears to be a variation in the camera distance because this appears more close up than the other one. I don't know, I didn't notice that until now. [362]

Q. Looking at the ruler up there, of course the Judge can see and we can all see, and it is a matter of opinion, but your best estimate from the con-

(Testimony of Oscar Martin Braun.)

trast with the rulers in the pictures, what would you say as to the size of the Sun Grand in E-14 on the left and the Red King in E-12 on the right?

A. Well, let's see. I would say they would both probably be in the 70 sizes, about two——

Q. Well, I am not particularly interested in the box size, as I am in the comparative size. Which is the larger or the smaller, or are they equal?

A. Well, I think they—they look to me as if they are pretty close to equal. Evidently there is a difference there in the shadow and there is a little bit of difference in the blueness in the picture. The same camera was used in both pictures so evidently there must have been a little change there in the height or something, but looking at the rulers, the ruler measurements, it appears that the diameter section up above—well, it's reasonably close. I think it appears that this on the left is slightly larger, which could be possible.

Q. And it would be your declaration now that these pictures which you presented in series were not taken at the same camera position?

A. Well, I didn't take this particular picture for size. [363] I took it for the shape of the fruit, which wouldn't be affected by a little movement up or down. In other words, I was interested in the contour of the fruit here, you remember, and the shape of the fruit, and not the size of the fruit.

Q. Wouldn't it have been more correct and acceptable to keep your camera in exactly the same position and setting?

(Testimony of Oscar Martin Braun.)

A. Yes, but I will tell you what happened. In taking pictures sometimes there is a little jar, or sometimes a little screw on the camera comes loose and it slides down a little and you tighten it up, and sometimes you do affect your stance there, but the intent here is not size, sir, it is the form and shape of the fruit.

Q. But these do happen to be random samples and they should be representative sizes?

A. I think they are. I will go along on that. I think they are representative.

The Court: As you measure them in millimeters and centimeters, an ordinary ruler based upon the inch system wouldn't disclose the slight differences with the other one, would it, which is measured by the metric system, or would it?

Mr. Byrnes: In putting this on the left.

The Witness: No, for the smaller details, of course, the smaller unit of measurement would be more accurate.

The Court: Be more accurate.

The Witness: Yes. [364]

The Court: Go ahead.

Q. (By Mr. Shepard): Did you attempt to measure a range; for instance, did you attempt to measure 50 representative Sun Grand and 50 representative Red King, in millimeters or inches?

A. Well, I took some measurements, I don't think I measured 50 of them.

Q. Well, how many did you measure?

(Testimony of Oscar Martin Braun.)

A. Oh, I don't know offhand.

Q. Do you have any of that data left?

A. I don't have it with me.

Q. You did measure the pits, though, and presented that data? A. Yes.

Q. I take it your measurements of the fruit you didn't consider significant?

A. Well, for an average range of the fruit I didn't think it was a factor which would disclose anything at that time, yes.

The Court: You would almost have to use a very accurately-marked tape to measure circumference and the like?

The Witness: You would almost have to have a caliper, to do that and take the measurements, which I didn't do.

The Court: You would have to have a caliper, that is right. [365]

Q. (By Mr. Shepard): As a matter of fact, your measurements on the patent are in inches, the same as the measurements on the Sun Grand patent? A. Could be. I don't remember.

Q. I think it is on the patent itself. And you have used in your patent a measurement of the transverse and axio measurements in inches?

A. I believe so.

Q. Would you turn to slides E-22 and, I think, E-23?

Mr. Savage: Can you gentlemen hear him when he talks so low? Would it be permissible for our

(Testimony of Oscar Martin Braun.)

experts sit up where they could hear the witness? They are having difficulty.

The Court: I have no objection to them taking a seat in the court enclosure.

Mr. Savage: If you will speak a little louder, I will appreciate it.

The Witness: I will try to, sir.

The Court: Sit in the jury box, sit anywhere you want.

Mr. Byrnes: This is slide E-22 on the screen.

Q. (By Mr. Shepard): Let's take E-23 if we can on the other projector, and you can interchange them if the projector makes a difference. [366]

Mr. Griswold: I think the projector magnifies a little more on the other side.

Q. (By Mr. Shepard): We will interchange the pictures when I get done with my question. Again, these are representative samples?

A. Yes.

Q. And I believe that you were pointing out something else about the shape in these pictures. I think that is the reason you took these pictures, was it? A. Yes.

Q. Now, one of the distinctions you pointed out, as to the Red King, was color, that the Red King, I believe you in simple terms stated it was redder than the Sun Grand. Maybe I am putting words in your mouth. Would you point out to me now the differences in color in this photograph, and interchange the slides, if you like?

(Testimony of Oscar Martin Braun.)

A. Well, from the standpoint of color, I would make this declaration, that the color factor is variable, and I mentioned that, but that on the average Red King fruit is more highly colored than the average Sun Grand fruit. Now, here again, when I was making this selection, this random selection does show, and I think those particular specimens there do have good color, but I think you also notice they have more of an orange color to them and not so much of the reddish color, and here again, of course, the [367] color—I believe when I showed those I attempted to bring out, not the color so much, as the form differences there.

Q. Mr. Braun, the reason I am bringing these slides in is because you didn't put these slides together for the color, but nevertheless, they are representative samples? A. That is right.

The Court: Well, as I gather from the testimony of the witness, he would take certain things for photographic purposes to emphasize certain factors, and then took others to emphasize other features, isn't that true?

The Witness: Yes, sir.

Mr. Shepard: I recognize that, your Honor. Do you have 17 on one side and 16 on the other?

Q. There are 16 samples in one picture of the Red King, and 17 of the Sun Grand, more or less, there. That is about as many as you showed in any picture, isn't it?

A. I think so because—I mean you have to space them to a certain extent.

(Testimony of Oscar Martin Braun.)

Q. I remember four by four which had 16 later on.

A. So I thought that was representative of lots, and of course in those lots I probably had——

Q. Is there any reason why this photograph, although it was taken for the purpose of showing something else, should not be representative as to color?

A. Well, I think that there is a certain variation—— [368]

Q. No.

A. ——in color of the varieties of fruit, which will show a color variation there, so that, I wouldn't accept that as a typical Sun Grand color, however. That shows that way in that variety at that time; I wouldn't call it typical for Sun Grand however.

Q. But you did pick out random samples of Sun Grand? A. Oh, yes, absolutely.

Q. It just happens that in this picture, the last samples you don't think are typical?

A. I wouldn't say so, no. I wouldn't say those are typical of Sun Grand. It was explained to me, sir, by a fruit grower who grows Sun Grand that the typical Sun Grand has a yellowish orange color and not that reddish color.

Mr. Shepard: I move to strike that as hearsay.
The Court: Well, it may be stricken.

Q. (By Mr. Shepard): Now, you showed in the next picture, E-24, if I may have that.

(Testimony of Oscar Martin Braun.)

Mr. Byrnes: I have 22 and 23 here. Do you have 24?

Mr. Shepard: Well, go ahead, interchange those last two.

Mr. Byrnes: That is what I was trying to do.

Q. (By Mr. Shepard): Do you wish to add any comment when the films are interchanged? [369]

A. The only comment I would say is that both those samples are representative samples, picked at that particular time as random samples and the fruit of the Red King showed a more oblique rounded shape than the fruit over here, the Hiraoka Sun Grand does.

Q. May we have E-24 now? Now, what is that, the top or base?

A. Yes, that is the base, showing the base view, or in other words, the fruit is resting on the apex, on its apex.

Q. Did you have any pictures of the Sun Grand in that position?

A. I believe so. I think we did, didn't we?

Q. I didn't see any sequences, is the reason I am asking that question. I wondered if you had any to contrast with Sun Grand.

A. I thought I did. I guess I have some here, but some of these were not shown.

Mr. Byrnes: This doesn't show it fully, but it comes close, E-21.

Mr. Griswold: I suggest you call for the number.

(Testimony of Oscar Martin Braun.)

Mr. Shepard: My cross-examination at this point is whether or not he has a comparable picture. My records don't show.

The Witness: Do you have a comparable? [370]

Mr. Byrnes: No, I don't find any.

The Witness: Except 18, 20 and 21, showing a view, but there is less fruit.

Mr. Shepard: The one we had was on July 5th, and the ones you have were on June 28th. I don't want to belabor the point; maybe later on you can find one.

The Court: Let's go on, time is passing, gentlemen.

Q. (By Mr. Shepard): Now, before I ask you about another picture, did you determine the fertilization program of the Tagus, Hiraoka, Kozuki and Hagler ranches? Do you know what fertilizer they used? A. No, I do not.

Q. Is it true that the fertilizer can make a difference in color, would you say?

A. I think it would, especially if it——

The Court: Speak a little louder so I can hear.

A. Especially if trees are fertilized to excess you would definitely have less of the color, you would have more greenish color, and your coloring would be slower.

Q. (By Mr. Shepard): Did you determine the irrigations of the respective ranches, that is, the time that they irrigated and the amount?

A. No.

(Testimony of Oscar Martin Braun.)

Q. Did you determine the budding practice of the [371] respective ranches, or know of it personally? A. What do you mean?

Q. Well, were these nectarine trees budded—I believe I am not using the right word, thinned is the word I want?

A. Well, I do know this, that the thinning practice on all the ranches seemed to be normal, normal thinning practices for shipping purposes.

Q. You didn't inquire about how they thinned, whether heavy or light?

A. No. I could see that, and I would say that from my experience that—I would say from what I saw that the thinning practices on all these ranches were normal. I mean, I think the farmers were thinning to get a good size and a good crop if they could.

Q. How can you determine that from looking at it?

A. Well, you—some of these things you have to find out from experience, and then some of them, you check the vigor of your trees and you see how far apart your fruits are, which gives you normally an indication. In other words, in practice on peaches, if we want to make sizes with Red Havens, why, we try to thin them out to, say, eight to ten inches between fruit.

Q. That differs on different varieties?

A. Oh, yes.

Q. Are different varieties different, in the heaviness, [372] lightness, or state of bearing?

(Testimony of Oscar Martin Braun.)

A. Yes; they are.

Q. Of number of fruit?

A. Yes; they are.

Q. And would orchards probably vary in degree of number of fruit on, that is from one orchard to another?

A. Yes; different varieties, and then if they have different climatic conditions they could, yes.

Q. And isn't it possible that you might see a tree that you thought was thinned light, and in fact it was just a light bearer?

A. It could be possible.

Q. In other words, it would have been more positive for you to find out personally how they thinned these ranches than your opinion as to the thinning?

A. No; I don't think so. I don't think that would have made any difference.

Q. How about the pruning?

A. As I observed, the pruning practice here again on all these ranches seemed to be what we would call good normal thinning, where they practice a thinning out of the finer brush, and perhaps a cutting back to laterals of the larger brush, which appeared to be a normal practice, as I remember it.

The Court: Let me ask you this question, these were [373] among the ranches which were given to you by Kim Brothers as containing the large number of the various varieties grown?

The Witness: Well, your Honor, I started to

(Testimony of Oscar Martin Braun.)

make a study of the fruit and the flowers, and so forth, on the Kozuki ranch and on the Hiraoka ranch before I received the notice from Mr. Griswold to report to the Tagus ranch to select——

The Court: All right, but these names were given to you by the——

The Witness: No; I called the local packing houses in the Sanger area and asked them if they could tell me.

The Court: Well, all right; from your observation would you consider the ranches—I know Tagus has a reputation all over the country and all over California as being an example of what are called factories in the field, in other words, a large type of production of agricultural products, isn't it?

The Witness: Yes, sir.

The Court: And would you consider from your experience that these three were typical, so far as the growing of this fruit is concerned?

The Witness: Yes; I would.

The Court: All right.

Q. (By Mr. Shepard): The Kozuki and Hiraoka ranches were not given to you [374] by the plaintiff here at all, were they?

A. Oh, no. You see, I was requested, I guess it was in the first part of March, to locate some Sun Grand trees and being in the Sanger area I thought that I would like to find them in that area, so I called these packing houses and asked them if they

(Testimony of Oscar Martin Braun.)

had any farmers who were growing Sun Grands, and then I went to these people and asked them if I could use those trees to make a comparative study.

Q. I think we have that point across. You first went to the Tagus ranch then about April 5th?

A. Yes. That is correct.

Q. And you made a statement at that time, which I may have misunderstood, that you did not go to the Tagus or Hagler ranches until April 5th?

A. That is right.

Q. In your program?

A. That is right. I visited the Hunter tree, and we located the tree at the Tagus ranch and at the Lyle Hagler ranch all on April 5th. I believe that is right.

Q. Well——

A. As I remember, I believe that is the way it was.

Q. Now, may we look at picture E-2? When was this picture taken?

A. Oh, let's see. I guess I will have to retract the statement that I made; that picture was taken, as I remember, [375] I think it was the first Saturday in March, I believe. I have to retract that, I did visit the original Hunter tree and the Red King grafted tree on the Hagler ranch in March. That's right. I beg your pardon, I made a mistake there.

Q. Now, slides—take that one out—E-28, E-29 and E-30 I had some questions about, taken July

(Testimony of Oscar Martin Braun.)

5, 1958, of the Hiraoka Sun Grand, is that correct?

A. Yes.

Q. Now, what is that, 28?

Mr. Byrnes: That is 28.

Mr. Shepard: May we have E-29? That is a Kozuki Sun Grand on the same day?

The Witness: Yes.

Mr. Byrnes: This is 30.

Q. (By Mr. Shepard): 30. What I wanted to get at was, 30, I want you to observe the colors. The upper left-hand fruit at the top, the fruit there appears to be a lighter yellow? You observe the color. Now, will you go back? This is the Sun Grand on the same day at the Tagus ranch, and would you observe the color of the preceding picture? Those yellows are more pronounced, are they not? A. Yes.

Q. And yet they have been taken with the same focus, [376] and everything?

A. So far as I know.

Q. Well, you took the picture, didn't you?

A. I believe that my son, Russell, took those pictures.

Q. Did you observe him take them?

A. Yes; I set them up. I cut the fruit and set them up. So far as I know, everything should have been equal there.

Q. At least that was your instruction?

A. Yes; that's right.

Q. Then the previous picture——

(Testimony of Oscar Martin Braun.)

A. That would indicate, of course, to me a little difference there in the probable maturity at that particular time.

Q. One is the Tagus, the previous one was a slightly lighter color?

A. There are, I think, one or two in there that have the low—that is outside in the sunshine and it may be there was some possible deflection there. I don't know, but it does—it appears—I notice that, that does appear that it would indicate a difference in maturity there, which could be possible too. In selecting samples that way, why, sometimes I would just take a representative lot at a certain time and they wouldn't all be the same maturity.

Q. These were taken to show the pits. Are 31 and 32 the Red Kings of this section? [377]

Mr. Byrnes: Probably would be. This is the other one.

Mr. Shepard: Yes; that was 28, the Hiraoka.

Mr. Byrnes: Would you like 31 and 32?

Mr. Shepard: Yes.

Q. Now, that is the Red King graft on the same day, that would indicate the Hagler principal orchard? A. Yes.

Q. Are the colors about the same in the prior picture of the same day of the Sun Grand; or do you want to put them on the different screen?

A. Well, from the standpoint of the color, I would say that the—I think that's the normal color

(Testimony of Oscar Martin Braun.)

reaction for Red King, as I remember it at that time.

Q. I am asking you for your opinion as to whether the color as between this picture and especially the Hiraoka and Kozuki pictures shown previously are about the same, the flesh?

A. Could I have the other two slides again?

Mr. Byrnes: These are 29 and 30.

Mr. Shepard: Yes. That is Tagus, which I thought was a little lighter.

A. Well, now, this color seems to be a little darker around the pit on several of the fruits on the upper side; then the middle Tagus ranch seem to be a little bit lighter, and the Red King seem to be in between the two really. [378]

Q. Give us the Red King.

A. You notice the deep color there in the pit around that one. This one doesn't seem to be quite so brilliant.

Q. That is off the original tree the same day. Let's show the original a little longer there. That is a little lighter color?

A. Well, it appears that way.

Q. More like the Tagus?

A. Well, it seemed to me it was sort of in between the two.

Q. All right. Now, let me ask you right here whether or not you considered that the ripening period of the Sun Grand and Red King was different?

A. I made a record of those ripening dates, and

(Testimony of Oscar Martin Braun.)

I don't remember offhand what they were. I believe I gave them to Mr. Griswold.

Mr. Shepard: Do you have those, Mr. Griswold?

Q. Aside from the record, your general memory of the Red King does differentiate that from the Sun Grand in ripening date?

A. It seemed to me as I looked over the ripening dates on the dates that they picked the fruit for that pack-out size chart that there was some difference.

Q. Do you recall what it was, whether it was earlier or later? [379]

The Court: Are we talking of early Sun or are we talking about standard?

The Witness: I recall that I asked Mr. Hiraoka, who started picking, I believe, quite early, why he was picking so early, and he made the remark to me it was because he had irrigated and he was afraid if he waited that he would have split pits. I remember that, of Mr. Hiraoka. Now, on these others, I just don't remember, but I have the data.

Q. (By Mr. Shepard): Let me ask you, and when we have the data we will look at that in a minute, because I want you to have all your information: Before you ever commenced this study as you have described in about March 1, 1958, long before that time you had made an opinion, a positive opinion as to the difference in ripening period, had you not?

A. I don't know as to whether I had committed

(Testimony of Oscar Martin Braun.)

myself whether there was a difference in the ripening date between the Sun Grand and the Red King prior to that time. I don't remember. Did I say that?

Q. Let me ask you——

A. I don't remember whether I did or not.

The Court: Well, regardless of whether you said it or not, did you have an opinion? You told us you started out with the idea of making this study and making reports and——

The Witness: I was—— [380]

The Court: ——did you start in with the definite idea from anything you knew before that there was a difference between the accused plant and the patented plant?

The Witness: Your Honor, when I was first made aware of this mutation, it was referred to me as a mutation from the LeGrand, which ripened at a considerably later date, possibly two weeks later, or at least ten days later than the Red King. Then, as I remember now, the subject came up that—I don't know just exactly who mentioned it to me, whether it was Mr. Riesner or Mr. Hagler or who, said that there was some doubt on the part of Mr. Kim here, whether or not this was his variety because he thought it ripened about the same time, and there is, of course, in the ripening—as I remember, they ripened within approximately the same week.

The Court: Then it would be a correct summary

(Testimony of Oscar Martin Braun.)

of your testimony that while you didn't have any opinion of your own, you had been told——

The Witness: Right.

The Court: ——by others that in their opinion——

The Witness: Right.

The Court: ——the accused plant ripened a few days, anywhere from four or five days to a longer date——

The Witness: Within each other.

The Court: ——than the patented plant? [381]

The Witness: Yes; but I don't remember any specific time involved.

The Court: I see.

Q. (By Mr. Shepard): Now, the statement you made, in all due respect to the Court, the statement you made was they ripened within the same week, is that true?

A. It certainly is apparent from the data that I worked on this year.

Q. Now, you helped Mr. Hagler draw up his patent description, didn't you?

A. Yes; I did.

Q. And you were fully aware at the time you started working on this patent description that there was at least admittedly a close comparison between the Sun Grand and his new Red King as he claimed?

A. I don't think I would say that I had that realization, no.

(Testimony of Oscar Martin Braun.)

Mr. Shepard: Do you have that patent 1718, I have forgotten the number?

Mr. Savage: Exhibit A, I believe.

Q. (By Mr. Shepard): I refer you to the fourth paragraph in the description or specifications in plant patent 1718, first line: "Although the seed or stone characteristics of the [382] fruit of my new sport are somewhat similar to those of the variety 'Sun Grand' (Plant Patent 974), which sometimes makes it difficult to distinguish the same from each other, it will be amply evident to experts and to others by careful comparison that the stones of my new variety are slightly wider, their pit marks are not as deep and the pit grooves are not as deep. Moreover, the new sport is definitely a freestone type of nectarine, but does not ripen as early as the variety 'Sun Grand,' " and so forth.

Now, you wrote that description, or helped make——

A. I do not think that I wrote that part at all. All that I was asked to do was to write up the description of the fruit.

Q. Well, you stated to Mr. Griswold at almost the outset that you were familiar with this patent?

A. I was familiar with the Sun Grand variety, yes, I had seen it at fairs and judging work, and had seen the fruit.

Q. This is the Red King we are speaking of.

A. Oh.

(Testimony of Oscar Martin Braun.)

Q. When Mr. Griswold put you on the stand he asked you if you were familiar with the Red King patent, and he showed it to you, I think.

A. Oh, Red King, yes.

Q. You are anyhow familiar with it? [383]

A. Yes.

Q. And in the course of your study I take it you read the patent? A. Yes; I have.

Q. Now, I refer you to the last paragraph of the patent on the back page of it in which the claim is set up: "I claim: A new and distinct variety of nectarine tree of the yellow-fleshed freestone fruit type, substantially as herein shown and described, characterized particularly as to the novelty by its habit of ripening about five or six days earlier than the fruit of its parent variety 'LeGrand,' and by a higher red coloring of the skin of its fruit as compared with 'LeGrand.'"

Now, would you say that is an accurate description of this Red King fruit that we are talking about?

A. From my knowledge of the ripening dates of nectarine varieties and peach varieties and plum varieties, I would make the statement that from my knowledge there is a variation from year to year. Now, at the time this information was taken it might have been correct, sir, but whether it would hold this year or next year would depend upon the climatic conditions and it may not be true from year to year, because we do have the variations.

(Testimony of Oscar Martin Braun.)

Q. Now, this is the claim, the novelty as to the ripening period and the color as to the [384] LeGrand.

The Court: I think that is argumentative. He didn't prepare the claim, he isn't bound by it. He merely advised; the lawyer probably prepared it, as lawyers usually do, and I think we are unnecessarily prolonging this examination, because he is not responsible for what is claimed, and it is argumentative. You can argue to the Court that the evidence indicates that the fruit wasn't properly described.

Mr. Shepard: I am sorry, your Honor. I withdraw the question.

Q. May I ask then if you made a study of the ripening period from the statistics available of this Red King, as compared to the LeGrand?

A. As I remember, I believe that I was not concerned with that part of the patent application, that Mr. Hagler determined that himself.

The Court: That isn't the question he is asking. I got him away from the patent, you are bringing him back.

The Witness: Oh, I beg your pardon. What was the question?

The Court: Read it back. He is talking about the experiments you made afterwards as to the ripening period and the conclusion you arrived at on the basis of your own study. You have a chart you have testified from, that is what he is talking about.

(Testimony of Oscar Martin Braun.)

Mr. Shepard: Would you read the [385] question?

(Question read.)

A. Yes.

Q. And do you have any charts or figures as to the ripening period for the years in which there are comparable statistics available?

A. No; I haven't made any record, as such. Normally, in that area where the Red King was found, the LeGrands ripen after the fruit has been entirely picked from the mutation tree, so far as I remember it, so that it would be at least ten days or two weeks, difference in ripening date between the Red King and the LeGrand. I do know this, that in different areas you will still have a further spread of time and variance in time, but I would say in that particular area, as I remember it, that was my remembrance in going down to look at the fruit. In other words, after the Red King fruit had been picked off the tree, or fallen to the ground, was just about the time they were starting to pick the LeGrands, which normally would be probably middle of—from the third week in—the middle of July to the third week in July, I don't know; it would vary in that area.

Q. Calendar dates are misleading?

A. They are, yes.

Q. Isn't it a better evidence to compare them with the ripening date of some standard variety, or at least some other known variety? [386]

(Testimony of Oscar Martin Braun.)

A. Yes; it is.

Q. Now, what would your answer be, either on the basis of your study, statistics, or your best opinion, as to the difference between the ripening date of the Red King and the LeGrand?

A. Well, as I remember, as I said before, as I remember the LeGrand would ripen in that area about the third week in July.

The Court: He wants you to get away from the calendar, and give it in point of days.

The Witness: Oh. I would say——

The Court: Give it in point of days. Suppose you had a cold summer, I know you have had some cold summers that delayed the fruit.

The Witness: Yes. Your Honor, the Red King would ripen from 14 to 21 days before the regular LeGrand.

The Court: All right. We finally got it.

Q. (By Mr. Shepard): I will ask the same question about the Sun Grand as compared to the LeGrand, the average difference in days of ripening days, either from charts that you want to refer to, anything that you have in your possession?

A. Well, it is apparent from the notes that I have here on the time of ripening that the Sun Grand ripens all the way either from June 30th, which is—July 7th, [387] which would be—LeGrand ripens the third week in July, that means that you would have a good, oh, approximately three weeks difference between the Sun Grand and

(Testimony of Oscar Martin Braun.)

the LeGrand at this particular season, which, of course, will vary, and we know that varies sometimes as much as two weeks from year to year.

Q. Well, I would like——

A. One way or the other. That is a very variable factor, the ripening dates, very variable.

Q. Now—— A. One of the factors——

Q. ——this is data you got yourself?

A. Yes.

Q. Which shows the ripening periods?

A. One of the things——

Q. May I ask——

A. I believe so, I think that is right.

Q. Would you please verify that?

A. Picking time, yes, this is ripening date indicated by picking time. Now, picking time is influenced by what market you are shipping your fruit to. If you are shipping your fruit to an eastern market you pick it in a greener—you would pick closer to the minimum maturity.

The Court: Well, making allowance for all that, what is your opinion on the basis of such study as you made as [388] to the difference in the ripening time between the LeGrand and the Sun Grand, and the Sun Grand and the accused plant? That is a leading question, and counsel can object.

The Witness: From what I know about the fruit of the LeGrand, I would say that in that area the orchards I have seen and the fruits I have seen, take for instance this year, I think they were pick-

(Testimony of Oscar Martin Braun.)

ing the 19th of July, and as I mentioned previously Mr. Hiraoka started picking his Sun Grands the 30th of June and——

Q. (By Mr. Shepard): Is that what you have on the chart?

A. Yes, sir. And Mr. Hagler started picking his Red Kings July 4th. I mean that is—I think those are——

Q. Well, the Tagus ranch—go ahead, I am sorry to interrupt.

A. Yes; I think those are accurate dates, sir.

Q. You seem to stay away from the Tagus ranch. When did they start picking?

A. They started July 7th.

Q. And that is three days later than Mr. Hagler started, wasn't it? A. Yes.

Mr. Shepard: May we introduce this exhibit in evidence?

The Court: What is it? I haven't seen it. Has it been identified? [389]

Mr. Shepard: It is a copy. I don't know if he has the original.

The Court: All right, it may be received.

Mr. Savage: That will be?

The Clerk: L.

(The document referred to was marked as Defendant's Exhibit L, and was received in evidence.)

(Should be Plaintiff's exhibit.)

(Testimony of Oscar Martin Braun.)

Q. (By Mr. Shepard): Now, if the ripening period here is of importance, Mr. Braun, would it——

The Court: This doesn't indicate the year. Are you talking about this year, is this '58?

The Witness: Yes, sir.

The Court: It may be received as plaintiff's exhibit next in order.

Q. (By Mr. Shepard): If the ripening period is important, would it not be good or better scientific practice to have taken the ranges of ripening period to figure out what the peaks were, rather than just giving arbitrary starting dates and ending dates?

A. Well, I don't know how to answer that question; the earlier fruit brings usually the highest price in some markets, and since—of the largest plantings is made of the LeGrand variety and it competes at a time when we have a [390] heavy shipment of Albertas, the price may be lower, therefore, the people who have nectarines would prefer to pick earlier to get in on the earlier market and make a higher price for their sales. I don't know any other way of answering that question. It varies from year to year, if it happens to be a short Alberta crop and a short LeGrand crop maybe they would delay harvest to get a better price for the later fruit. I mean, it is a variable factor.

Q. I don't want to belabor the point, but I would like to have you answer this question, leaving

(Testimony of Oscar Martin Braun.)

out all these exceptions and changes from year to year, as a general rule would you say from your study, the chart that you have, and everything else, that there is any significant difference in the ripening period of Sun Grand and Red King?

A. I don't know.

Q. All right.

A. I just can't tell you that.

Q. Now, you mentioned something about the glands on the leaves of the Red King and the Sun Grand in your picture sequence there, as to number, and you counted the number and averaged them out?

A. Yes.

Q. Do you remember that offhand, that was what for the Sun Grand?

A. No; I think I mentioned the fact that I counted them [391] on the Red King, and they averaged out 2.25.

Q. Now, did the authorities give any significance to the number of glands?

A. Well, the number of glands are requested by the Patent Office, I believe, for every patent application on nectarines and peaches, and just as the kind of glands, of which there are two, globose or reniform, or if they don't have any, are requested.

Q. How many patent applications have you helped with?

A. This is the first time that I have been asked to write up descriptive notes for a fruit variety.

Q. And your opinion as to what is requested by

(Testimony of Oscar Martin Braun.)

the Patent Office was gathered from whom or how?

A. Well, I understood in talking with someone that that was what they requested. I don't know.

Q. The books that you made reference to, which were in evidence for identification, do they give any significance to the number of glands?

A. Well, they mention—Dr. Gregory mentions in the taxonomic value of glands for purposes of identification that they have some value, but the value is debatable.

Q. The number?

A. I don't remember of reading anything in that publication on number.

Q. However, the type of glands, globose, reniform, [392] or eglandular, are highly significant, are they not?

A. That is questionable, sir. It has been found by Dr. Gregory that Gold Dust peach variety in one state has globose glands and in another state it had—different district it had reniform glands.

Q. And isn't it so significant that he listed a chart of every known peach in his pamphlet in which he lists whether they are globose, reniform or eglandular, or what he calls mixed?

A. He listed examples, I believe, showing the different types and variations at that time. I don't think he listed all varieties, because there are hundreds of varieties of peaches, although he did list many varieties.

Q. Exhibit D for identification, which was in-

(Testimony of Oscar Martin Braun.)

troduced by your counsel, beginning on page 212, and the three or four pages thereafter, do you attach any significance to that table of glands, of dozens and dozens and perhaps hundreds of fruit there?

A. Not anything ordinary to the fact that he makes the statement on page 219 that——

Mr. Savage: What exhibit?

Mr. Shepard: That is D.

A. ——that there is some variation and that these glands have been used, and it is indicated whether they are globose or reniform or do not have any, but there is a [393] variability in these glands in varieties and that they aren't always stable.

The Court: Mr. Braun, I think so long as you are not using the slides now, it would be helpful to everybody if you came back here. If we are going to have slides, why, we will have to finish tomorrow morning.

Q. (By Mr. Shepard): Now, in the work that you made reference to, that you have there in your hand, that was written in 1915 or thereabouts, Gregory?

A. Yes; that is right.

Q. We have made some progress in pomology since that time?

A. I think so.

Q. And the following work written in 1946 gives special significance to glands, does it not?

A. Well, it mentions glands in here as a means of identification, yes.

Q. Yes. And it refers to the reniform, globose

(Testimony of Oscar Martin Braun.)

and eglandular situation? A. Yes.

Q. Now, I would like to change to a different subject, if I may, Mr. Braun. The tree in the Hunter orchard, which has been labeled the discovery tree, you first saw that tree when? [394]

A. Let's see. As I remember it, I think it was in 1955. I think that I was down to see Mr. Riesner, Sr., about some nursery trees planting, and, as I remember, I think he took me over to this tree and mentioned the fact that it looked as if they had a mutation in the LeGrand planting of Mr. Hunter.

Q. And then the following year, '56, some time in '56, Mr. Hagler asked you to start working on these patent descriptions?

A. No. As I remember it, Mr. Riesner, Jr., came to me and asked me if I would write up the description for that variety, and I said I would do it.

Q. Are you familiar with Mr. Riesner having an interest in this Hagler patent?

A. I am not familiar.

Q. But at any rate, you began writing up descriptions in 1956? A. Yes.

Q. So I suppose you observed that tree again?

A. Yes.

Q. Now, did you agree with Mr. Riesner that the fruit on that tree was a mutation?

A. I examined the tree carefully to see if—whether or not I could locate in the trunk a place which would show whether or not it had been grafted, and if it had been [395] grafted where

(Testimony of Oscar Martin Braun.)

they would make the V cut in the trunk, or if they used a cleft graft where they would make the cleft, and where the scions would be inserted in that V notch or cleft, and usually the bark would be different and would show a definite line of demarcation where the growth takes place. I looked for something of that kind. I couldn't find it, from my general knowledge, having grafted trees myself and since I am familiar with the growth of grafts, I was convinced that there was no evidence that I could see which would indicate that it wasn't a mutation.

Q. Did you find any evidence of grafting or budding or top working at all on that tree?

A. Well, there were several things that were mentioned there.

Q. Well, now, I am asking you what you observed?

A. No; as I remember there—it was a limb in the north—on the north side of the tree, I believe, that had a stub there of some kind, whether it had been sawed off previously or cut off, I don't know. Then on the west side of the mutation growth, which had two large limbs, as I remember it, there was a large cut right near the base of that limb, and, as I remember the way the story went, that was cut off by someone.

Q. Is that the one you showed the picture of?

A. Sir? [396]

Q. Is that the one you showed the picture of?

A. That limb was cut off by someone without

(Testimony of Oscar Martin Braun.)

permission from Mr. Hunter. No one seems to know why it was cut off or when exactly.

Q. You showed a slide on the screen and pointed that out, didn't you?

A. Well, the slide that I think I showed on the screen pointed to the fact that there was a lateral branch growing about eight or ten inches from the ground this spring, which had nectarine blossoms on it, and had nectarine fruit on it, and then all of a sudden somebody cut it off.

Q. What kind of fruit was on there?

A. Nectarine fruit.

Q. You don't know whether it was Red Grand or LeGrand?

A. No; I couldn't say, because it was very immature, very small fruit. But this does show, of course, the limbs here, and whether or not—there was no evidence that the limb was cut off but I didn't see any evidence of any grafting.

The Court: Well, you answered that several times. Did you see any evidence of budding?

The Witness: No; I didn't.

The Court: All right. What was the other one?

Mr. Shepard: Top working, which includes budding and grafting, I guess. [397]

The Court: All right.

The Witness: No; to my knowledge I didn't see any evidence of top working.

Q. (By Mr. Shepard): On the whole tree?

A. Right, not that I recognized.

(Testimony of Oscar Martin Braun.)

Q. Now, were there any other varieties on that tree than the accused variety, Red King, in 1955?

A. Well, as I remember it, going to the tree with Mr. Riesner, there were two varieties on that tree.

Q. What was the other one?

A. It was LeGrand and Red King, as I remember it. One was green—the other one, Red King, was ripe, and the other was green, like the fruit was on the adjoining trees which I understand are LeGrand. As I remember it, that is the way it was.

Q. Now, in 1955, would you describe how big, how large those two limbs were, the one we will call LeGrand and the one that later you called Red King?

A. Well, I don't know. Let's see. They were substantially large. I would say, oh, probably four inches in diameter, something like that.

Q. Were they the same size?

A. These two limbs coming out with the mutation?

Q. Well, one—— [398]

A. No; because there were two limbs coming out on this main limb, you see, that has the mutation.

Q. I am talking about the main limb that had the mutations on, and——

A. As I remember——

Q. ——then in contrast to the other limb which had LeGrands on. Were they the same size?

(Testimony of Oscar Martin Braun.)

A. Well, I don't remember, sir. I just don't remember that.

Q. Did those two limbs appear to come from the same starting age on the tree?

A. You are talking about the mutation limb?

Q. I am talking about the mutation limb, whether two or one, where it grew into the tree proper, and where the LeGrand limb went into the trunk proper, did they appear to be at the same starting point in time of age?

A. I just don't know. I can't give you an answer on that because I just don't know. I don't remember.

Q. Was there any evidence of a peach on the tree?

A. I saw no other fruit on the tree at the time.

Q. Now, do you have an opinion from what you know, experiencewise, academically, and what you observed down there, as to whether or not this Red King was in fact and is in fact a bud sport from the LeGrand?

A. Well, from my personal opinion, based on my knowledge [399] of the subject and my experience, I would say that it is possible that that Red King is a mutation separate from the LeGrand. We don't know why mutations happen, we don't know when they are going to happen, and I would, say, from my experience that is quite possible.

Q. Now, then, would you describe what you know of the characteristics of the LeGrand? First off, do you know what kind of glands they have?

(Testimony of Oscar Martin Braun.)

A. Well, now, I don't remember offhand but I think they are reniform, but I am not sure.

Q. That is my understanding. Do you know what type of flowers they have, the LeGrand?

A. I think you would call them large showy flowers.

Q. Do you know whether the LeGrand is clingstone or freestone?

A. I believe that the LeGrand is a clingstone.

Q. And you have already mentioned in your opinion the LeGrand ripening period is considerably later than the Red King?

A. Yes; I am sure that is true, that, as I remember, the fruit on the Red King was completely mature and dropping to the ground at the time the LeGrand was ready to harvest.

Q. And as to the vigor of the LeGrand, would you say that it is less vigorous than the Red King?

A. That is a difficult question to answer. I don't know. [400]

The Court: May I interrupt? You want more time?

Mr. Shepard: I would appreciate more time.

The Court: Then we better recess. We have worked pretty long hours.

Mr. Shepard: May I have permission, your Honor, to examine these films at some convenient time outside of court, the slides, since I never saw them before they were introduced here? Maybe we could come at 8:00 o'clock in the morning.

(Testimony of Oscar Martin Braun.)

The Court: We are all here at that time. Mr. Eiland gets here pretty early.

Mr. Shepard: I suppose I could take them to another room.

The Court: There is an adjoining room, isn't there, the one occupied by the bank examiner?

The Clerk: Yes.

The Court: There is an adjoining room. You can even go and use the second little courtroom here, if you want.

Mr. Shepard: Thank you.

The Court: I think you should have an opportunity to examine there. All right.

(Thereupon at 4:45 o'clock p.m. a recess was taken until 10:00 o'clock a.m., November 7, 1958.) [401]

November 7, 1958—10:00 A.M.

The Court: All right, cause on trial.

Mr. Shepard: Mr. Braun.

OSCAR MARTIN BRAUN

a witness for the defendant, having been previously duly sworn, resumed the stand and testified further as follows:

The Court: I think for the record it should be stated the Clerk this morning made available to you the slides.

Mr. Shepard: Yes; that is correct, your Honor.

(Testimony of Oscar Martin Braun.)

However, it is pretty hard to look at these slides in a few minutes, but we have looked at them.

The Court: All right.

Cross-Examination

(Continued)

By Mr. Shepard:

Q. Mr. Braun, you are acquainted with the Federal-State Market News Report?

A. Yes.

Q. As you have previously testified?

A. Yes; I am.

Q. And there was introduced through you a 1957 summary of auction prices for California nectarines, I think it was? A. Yes, sir.

Q. Now, that is based on the daily reports, is it not?

A. That summary is an average price for all sales for [404] that particular variety during that season.

Q. And has to be based on the daily reports?

A. Yes, sir; has to.

Q. There are daily reports from the Federal-State Market News Service during the summer when the fruit is in auction? A. Yes, sir.

Q. And it is true that one variety of fruit will obviously vary in price during the shipping year at the auction point? A. Yes; it will.

Q. Depending on the factors of the market?

A. Yes, sir.

(Testimony of Oscar Martin Braun.)

Q. Now, you gave us the cumulative—or pointed out the total year end averages of prices between the Red King and the Sun Grand. I show you here the Federal-State daily report No. 48, labeled for Thursday, July 18, 1957. You are familiar with that report? I take it you haven't read that particular report there in the last days possibly, but you recognize that as a daily report?

A. Yes, because we were shipping fruit and I look for these regularly during the year for varieties.

Q. And that particular report would be one day of the summer upon which Defendant's Exhibit K, the 1957 summary, was based? [405]

A. No, sir; I can't agree that this summary is based on this information.

Q. Will you explain?

A. Well, this report here, the Federal-State Market News Service, report 48, gives a price on fruit which was sold at different points, in this case, nectarines, at Fresno, California, on a certain day for certain sizes, whereas this report is a summary of all sales made at the auction markets during 1957.

Q. That report I gave you, does that have the prices for sales in Fresno, California, on it?

A. Yes; it does.

Q. Does it have the prices for the sales for the auction markets in the east? There are two or three pages to it.

(Testimony of Oscar Martin Braun.)

A. Yes; it does.

Q. That has the individual lot sales in each town in the east; I should say city, such as Detroit, Philadelphia——

A. Yes; I see some cities listed here, with prices.

Q. And then at the bottom, I don't know which page you have there, but at the bottom of, I think, the third page, second sheet, maybe the fourth page in your set, is a summary of all the fruit sold on that day according to variety? I will point that out to you.

A. Yes; I see that here.

Q. Now, the prices on a particular day would be a [406] better comparison between two given varieties, than the year end average, would it not?

A. I don't think so, sir. There are too many points there that would be important in making the sales, such as the available fruit at that particular market in competition with other fruit, the particular demand at that time, the special trade that was interested in these particular varieties, and I think this information would be more erratic than the yearly average is.

Q. Well, maybe I can read them to you there.

Mr. Griswold: Counsel, do you have all the reports for 1957? I will stipulate you may introduce them.

Mr. Shepard: As far as Red Kings, I think I do.

Q. This report of July 18th shows, as to Red Kings, 385 lugs, with an average price on that date of \$5.50?

A. That's right.

(Testimony of Oscar Martin Braun.)

Q. If I am interpreting this wrong, I want you to correct me.

A. No; that is the average price listed for this particular day.

Q. Yes. Now, on Sun Grand, on the same day, 3,333 lugs, \$5.85 average price?

A. Yes, sir; that is true.

Q. Then above, in the various cities it gives the breakdown by cities, New York in this case, Chicago on Sun [407] Grands, New York on Red Kings? A. Correct.

Q. And taking them by cities, Red King sold in New York, all sold in New York, 385 lugs for \$5.50 average, or spread between \$5.00 and \$6.25?

A. Yes; that's true. That's true, but, as I said here, you have the different market factors which are a fact. For instance, John Rivers, which is a very poor nectarine on the New York market brought here \$6.40, which is more than any nectarine on that list—

Q. Mr. Braun—

A. —so the factor is very variable, depending on the demand on that particular day in that particular city.

Q. Well, just to go on here. The New York—the Sun Grands on that day averaged \$6.04, a range from \$4.70 to \$7.45?

A. Sun Grands, yes.

Q. Yes, and Chicago had a different price?

A. Yes.

(Testimony of Oscar Martin Braun.)

Mr. Shepard: We would like to introduce this.

The Court: It may be received.

Mr. Shepard: Plaintiff's Exhibit.

(The document referred to was marked as Plaintiff's Exhibit 11, and was received in evidence.)

Mr. Griswold: Was that just one day?

Mr. Shepard: Just one day. [408]

Mr. Griswold: I have no objection if you wish to introduce all the days of the season.

The Court: Well, I have objection unless counsel has something special in mind. I don't think prices are of any great importance.

Mr. Shepard: I do not either, your Honor, but they introduced it and I wanted to have the opportunity to counteract it.

The Court: All right.

Mr. Savage: What exhibit number, please?

The Clerk: M.

Mr. Savage: This is a plaintiff's exhibit; shouldn't it have a number?

The Clerk: Oh, plaintiff's exhibit? It will be 12.

Q. (By Mr. Shepard): This is July 22nd, similar daily report, No. 50. It shows the comparative prices between Red Kings and Sun Grands as they sold in the eastern markets?

A. Red King at Pittsburgh, \$4.80; Sun Grand at Chicago, \$3.90.

Q. That was 40 crates?

A. 40 crates; Cleveland, \$6.11; at New York,

(Testimony of Oscar Martin Braun.)

1035 boxes at \$2.85; at Chicago, 398 lugs at \$5.34; Detroit, 886 lugs at \$6.19; New York, 1285 lugs at \$5.48; St. Louis, 72 lugs at \$6.22. [409]

Q. Yes, and then the daily average for Sun Grand lugs as against Red King lugs?

A. The daily average, page 4 of this market report No. 50, Red King, 580 lugs, price range, \$4.00 to \$5.00, average price \$4.80; accumulated total packages, 965, and the average price was \$5.08. Now, for Sun Grand, 2641 lugs, price range \$3.95 to \$6.60, with an average price of \$5.72, and a cumulative total number of packages to date of 10,701 lugs, with an average price of \$6.04.

Mr. Shepard: I would like to introduce this, your Honor.

The Court: It may be received. I wish you would explain to me that term "cumulative packages." It is novel to me.

The Witness: Your Honor, that refers to the total number of boxes which have arrived on the market for that season up to that date, from the beginning of the shipping season.

The Court: Oh, I see. All right.

Q. (By Mr. Shepard): Just one more for illustration, is report—

A. Report, deciduous fruit report, No. 53, Sacramento.

Q. And the date is?

A. The date is 7-25-57.

Q. This is daily, too, isn't it?

(Testimony of Oscar Martin Braun.)

A. This is—yes, this is daily, Thursday, July 25th, 1957, report No. 53. [410]

Q. And we can go into detail, but reading it, getting down to the daily averages, against it appears that the Sun Grand had a substantially higher average daily price——

A. However, it does indicate here that——

Q. ——is that true?

A. ——the size, if anything, was larger than the size of the Sun Grand on this particular market. The Red King is 247 lugs, sizes 64 to 84; the Sun Grand, size 60 to 108, and the other 411 lugs, Detroit, size 60 to 96.

Q. Now, that doesn't necessarily show from those limited statistics that the Red King was larger than the Sun Grand, does it?

A. Well, it shows that the fruit in this shipment was larger than the fruit in the other shipment. The range was in a—more narrow range of size of fruit.

Q. As a matter of fact, the range of the Sun Grand showed larger fruit in the extremes of its range than the extreme of the Red King range, didn't it?

A. By four. However, on the other side was 84 against 108. 108 which would be probably—in fact, I don't know how that ever got by the Nectarine Marketing Board, because 96—88 is the minimum size. Both of these are below minimum size. This is '57. We didn't have any marketing board then, but those would be below the '58 size requirement.

(Testimony of Oscar Martin Braun.)

Q. But anyway, in order to make an accurate statement [411] as to sizes, it would have been better to know the number of lots of one particular size, as you showed on your graph?

A. Correct. I figured it out on a percentage basis.

Mr. Shepard: Now, I would like to have this introduced.

The Clerk: That will be 14.

(The document referred to was marked as Plaintiff's Exhibit 14, and was received in evidence.)

The Court: It may be received.

Q. (By Mr. Shepard): Now, referring for a moment back to your charts on sizes, do you have the data for those charts?

A. Yes, sir; I do have.

Q. May I see them, please?

A. I do not have them, but Mr. Griswold has them, I believe.

Q. You had the lot sizes for C. L. Hagler?

A. I had original copies of the data, sir.

Mr. Griswold: I don't know what these are. I will ask the witness. Are these your notes?

A. This is one from Barr Packing Company. Yes; these are the notes that I used as the basis for that.

Q. (By Mr. Shepard): Now, the first thing I call your attention to—

A. Yes.

Q. I will give them all to you here. Referring

(Testimony of Oscar Martin Braun.)

to the [412] C. L. Hagler data, he had a total of 1,029 lugs? A. Yes.

Q. And the Tagus ranch, which you compared with them, had a total of—he hasn't got them totaled there.

A. He has the weight recorded here, but he said—yes, he has them here. I should add this up, I guess; 2,208 this adds up to.

Q. Now, let's see your chart. You chose to make a breaking point in your charts at 75, didn't you?

A. It depended on the different sizes I had in mind.

Q. Exhibit J-2.

A. What I had in mind was to take the average size which is accepted as normally around 70 as an average size fruit, and go from there either way. I believe that is what I did.

Q. Well, I take it your answer is yes to my question, you chose to take 75 as a breaking point?

A. Well, on one of the charts I did.

Q. And to further explain the chart, the J-2—this confused me but I finally figured it out—J-2 includes all the lots which are in J-1?

A. Yes; it does.

Q. So that you got——

A. In other words, I have a more normal crop relation which extends over a wider range of fruit for a certain size. [413]

Q. Now, if you had happened to take 80 as a breaking point, five points difference——

(Testimony of Oscar Martin Braun.)

A. I haven't figured that out.

Q. I know you haven't, but I want you to look at the data on the Tagus ranch.

A. The data on the Tagus ranch shows 965 boxes which peak at 70, and 790 boxes which peak at 80, so you have——

Q. Tagus is the black line marked T on J-2, is that right? A. Yes.

Q. And if you had picked 80 instead of 75, where would that black line go to?

A. If I had what?

Q. If you had picked 80 instead of 75, where would that black line go to?

A. I couldn't tell you that.

Q. Well, you can give me a rough approximation.

A. I don't know. These are figured on a percentage basis, and I would have to refigure the percentage there.

Q. Well, it is obvious that 790 more lugs included in the 80 range, in a total of 2,200, that you would have had a greatly increased percentage, if you had taken 80 as the breaking point?

A. Well, normally in our shipping work we think of average size, below average size and above average size, [414] and that was what I had in mind here, breaking it down into the three categories. If I would have included 80, then I have included fruit which would have been below normal size, you see.

(Testimony of Oscar Martin Braun.)

Mr. Shepard: Would you read the question?

(Question read.)

A. Yes; it would have increased the percentage.

Q. And as to the data on the C. L. Hagler ranch, if you had included 80, which shows 196 more lugs, out of a total of 1,029, the percentage would not nearly have increased as much, would it?

A. Well, there would be a difference in percentage there.

Q. There would be, I grant you that.

A. There would be a difference in percentage.

Q. But the point is, 196 or 200, as to the total of 1,000, is hardly as great as 800 is to 2,000?

The Court: Well, that is a mathematical problem. One is one-fifth.

The Witness: Eight to 2,000 is greater than—well, let's see, than two to 1,000.

Q. (By Mr. Shepard): That is what I am pointing out, 200 is a fifth of 1,000 and 800 is about three-fifths.

The Court: 800 to 1,000 is almost 40 per [415] cent.

Mr. Shepard: That is right.

The Witness: How is 800 involved?

Q. (By Mr. Shepard): 790, I took 800 as a round figure, and I took 200 as a round figure for 196.

A. The Hagler ranch there is no packout as 790.

The Court: Well, let's go on, gentlemen, we are

(Testimony of Oscar Martin Braun.)

spending time on mathematical problems, which are more a matter of argument than a matter of proof.

Q. (By Mr. Shepard): Mr. Braun, you can do different things with the same set of figures, can't you?

A. Well, yes, of course, it depends on what you have in mind, and I was thinking of the three different sizes of fruit, as I said before, the large ones and the small.

Q. All right. Now, one more thing, do you have the pack out sizes on the Lyle Hagler ranch? Your counsel didn't give them to you.

A. Pack out sizes. No; I do not have them.

Mr. Shepard: I would like this data introduced, at least for identification, so my witnesses could speak from it, the three pack out sizes he used for his graph.

The Court: All right, for identification. One number, or separate numbers?

Mr. Shepard: Just one number is [416] sufficient.

The Clerk: That will be 15.

(The documents referred to were marked as Plaintiff's Exhibit 15, for identification.)

Q. (By Mr. Shepard): Did you attempt to get the pack out sizes from the Lyle Hagler ranch?

A. No.

Q. And all of your comparisons in the photographs and the sizes in the photographs were from the Lyle Hagler as opposed to the Tagus ranch?

A. Yes; they were.

(Testimony of Oscar Martin Braun.)

Q. And you have no photographic comparisons, or took no other comparisons from the C. L. Hagler ranch, other than these pack out sizes?

A. No; I did not.

Q. Are you acquainted with this book? I won't attempt to pronounce it. You can spell it, Miss Reporter, the title. *Monographio des Principales Varietes de Pechero*.

The Court: I will help you.

Mr. Shepard: Would you pronounce it, sir?

The Court: I read French. *Monographio des Principales Varietes de Pechero*, by H. Caillavet and J. Souty, published by Centre de Recherches, Agronomiques du Sud-Quest, Mis en Vente Par, LeMaison Rutique, Librairie de L'Academic de L'Agriculture, means the Library, edited and published by [417] the Societe Bordelaise, Bordeaux Society, Bordeaux 1950, and this is published under the auspices of the French Republic, Minister of Agriculture, the institute for agronomical research. Do you know French?

The Witness: I had two years.

The Court: That isn't enough.

The Witness: I don't think I know enough to read that.

Q. (By Mr. Shepard): I am just asking you one simple question, which is whether or not you are acquainted with that book?

A. No; I am not.

Q. Therefore, you would say you haven't

(Testimony of Oscar Martin Braun.)

studied the variety classifications systems of that book?

A. No; I have not by this particular author.

The Court: All right. Do you want to identify it?

Mr. Shepard: No, sir; just cross-examination.

The Court: All right. Is there an international standard in peaches?

The Witness: Well, we have many systematic promologists throughout the world, your Honor, who have been working on the classification of fruits and peaches and nectarines and plums, and evidently I haven't read everything either, and I admit that, and this is one book I haven't.

The Court: Do they have standards just as they have on pharmacopeia, standards of [418] drugs?

The Witness: Well, there seems to be some differences of opinion as to one universal interpretation, however.

The Court: All right.

Q. (By Mr. Shepard): Now, you stated that Mr. Riesner first asked you to work on the description for this Red King patent in 1955, if I recall?

A. In 1956, I believe, sir, he asked me to write up the description for that fruit, and he brought the fruit to me. I first saw the fruit, as I recollect, in 1955, I believe.

Q. And who showed it to you then?

A. I believe that Mr. Riesner took me out to see the tree and showed me the fruit.

(Testimony of Oscar Martin Braun.)

Q. I see. A. Riesner, Sr.

Q. And what connection does Mr. Riesner have with this fruit, if you know?

A. I do not know of any connection, sir.

Q. Has he been your principal consultant when you were making the patent description?

A. I had no consultation with Mr. Riesner regarding the notes that I had prepared.

The Court: His occupation has not been stated for the record.

The Witness: Mr. Riesner is a nurseryman who grows [419] fruit in the Visalia area.

The Court: I see.

Q. (By Mr. Shepard): When did you first see Mr. Lyle Hagler?

A. As I remember it was in 1956, some time, but I am not sure.

Q. Did he speak to you about the patent? Or in what connection did you meet him?

A. Well, as I remember I met him in connection with looking at the fruit on the tree that he was interested in. Mr. Riesner came to me and asked me if I would write up the descriptive notes on the fruit. Mr. Hagler didn't ask me, Mr. Riesner asked me.

Q. And who did you give that description to?

A. Mr. Riesner.

Q. I would like to ask you a few more questions about these pictures. Will you give me a little help, Mr. Taylor? Pictures E-53, E-54 and E-55,

(Testimony of Oscar Martin Braun.)

if you would like to look at your notes on these slides before we put them in. Just run them in any sequence, Mr. Taylor. (Mr. Taylor runs slides.)

I have these in my notes, and I may be wrong, Mr. Braun, that these were given in a series to show the color of the Red King as being redder. Is that what that series is for?

A. Could I see these again, sir? [420]

Q. Yes.

A. It is my opinion that I was interested there more in the pointed apex of the fruit than I was in the color.

Q. These were taken on July 20th, and you noted in the first one, E-53, that is the one we have here now, Sun Grand at Hiraoka, that is when you started to talk about the irrigating and him wanting to pick earlier and make some explanation, I don't know whether it was relevant.

A. This fruit was picked, if the picture was taken 7-20, the fruit was picked the preceding Saturday, which would be the 19th, I think. Let's see. The 19th, fruit that I had picked on the same day from all orchards. In other words, I had to do this on week ends in order to get it in, and I would take pictures on Saturday after returning from the trip on Sunday.

Q. The thing you emphasized and I suppose that I emphasized in my first question, and I suppose you will agree, is that these pictures which you ran in a series were taken under identical

(Testimony of Oscar Martin Braun.)

photographic conditions so as to give a valid comparison?

A. Well, we took them—I put a cardboard on the sidewalk in my back yard and we had the camera on a tripod and we took them all right there in that location.

Q. Show the Red King there, will you? I want to check the record there later. Didn't you say in showing [421] this picture that this showed the increased reddish color of the Red King, and this is slide E-54?

A. Let's see. Now, may I look at the other slide?

Q. That is E-53, and we can show 54.

A. I would say—I don't remember making that statement, but I would say looking at those pictures now, at this time, that there is definitely a less bronze color in the Red King, and more red color in the Red King, than there in the Hiraoka Sun Grand. Yes, sir; I would make that statement.

Q. Look at the background of that picture that we have there, hold it in your mind. A. Yes.

Q. Look at the next picture, E-54, the Sun Grand—no, those are Red King. Look at the background of this picture. Isn't it obvious there is a difference in— A. Yes.

Q. —background and exposure there?

A. Yes; it looks that way.

Q. And the next picture in the series, E-55, contrast that with this Red King picture. This is Sun Grand, Kozuki, taken on the same day. This also

(Testimony of Oscar Martin Braun.)

has a different background than the Red King fruit?

A. Well, now, as I said before, I believe it was my intention here to bring out the differences in the shape of [422] the fruit, and not the color, and it is possible that when Russell was taking the pictures, or if I took them, that there might have been some adjustment of the camera, or looking through to see if it was in focus. It is possible that that might have happened, but these pictures, I believe I presented to show the differences in the shape of the fruit and not the color.

Q. All right. Let me have the slides out of the camera there, all three of them. Just look at these slides with the naked eye, the two Sun Grand slides compared with the Red King. They are obviously different exposures, aren't they?

A. Well, it appears that way, yes. I think the film was also processed by a different company from the appearance of the slide. However, the processing by a different company wouldn't make any difference, I don't believe.

Q. It is obvious that they have different backgrounds, two of them are kind of blue, and one of them is kind of white.

A. Well, there again, sir, the processing might have been responsible for that. I don't know, sir. But there is a difference in the reaction on the screen.

Q. Now, E-41 and E-42, we will get them in a

(Testimony of Oscar Martin Braun.)

minute, as soon as we get these back in order. I think we were showing these this morning when you came in, and I probably [423] made a remark that made you observe the differences in these pictures, E-41 and E-42. 41 is the Tagus Sun Grand, on the screen now, and if you will flip 42 which is the Red King, let's see if they were taken on the same day?

A. No; they were taken on different days. One was taken on Sunday and one taken on Saturday. This was given, as I remember, probably close to around 4:00 o'clock or so, 4:30 and I probably decided—I was taking notes and taking pictures, and if I didn't finish, why, then I continued the next day, and I think that is what happened here. This Tagus picture was taken 7-12, and the other picture was taken Sunday morning, or Sunday afternoon, I don't know, I would have to check, or consult the shadows.

Q. They were taken on different days at different hours out in the sunlight? A. Yes.

Q. So they aren't good comparisons, are they, as to color?

A. Well, let's see. May I see the other? I think here again, if I may remind you, I don't think I was interested in color here. I think I was interested in the shape of the fruit.

Q. My question was, are they good comparisons as to color, being taken on different days and at different hours?

(Testimony of Oscar Martin Braun.)

A. No; I don't think they are, no, they are not. [424]

The Court: I want to make an observation that might save time. I believe, regardless of the purpose for which particular pictures were taken, the Court in determining the question of similarity, will be governed, insofar as the pictures are concerned, by the entire pictures, what they represent. So long as we are using French, there is a phrase used in design patents that might be brought in here, what they call the *tout ensemble*, so I think we are taking too much time emphasizing that certain pictures were taken for a certain purpose, to show similarity of color or not so great a difference as the witness' oral testimony would indicate. I am merely making this observation in the interest of gaining time. It is arguable on the entire record of what, if any, similarity they show, and dissimilarity.

Mr. Shepard: All right. Just one or two more. E-43 and E-54. Which one is this?

Mr. Taylor: 43.

Q. (By Mr. Shepard): Again this was taken on July 12th, which——

A. I believe it was taken July 13th.

Q. July 13th, I beg your pardon. And you didn't take the dates of picking, or you don't have dates of picking by Mr. Hagler, do you, among your notes?

The Court: Of this particular fruit?

(Testimony of Oscar Martin Braun.)

Mr. Shepard: Well, for his Red King fruit you were [425] discussing.

A. On the tree that I had reserved I asked him not to strip the tree, because I had to have some samples.

Q. Well, that tree was a random tree in the middle of his orchard, wasn't it? A. Right.

Q. The point I am making is that July 13th was the middle, possibly even a little late in his harvest picking season. He picked, according to his testimony, July 2nd, 913 lugs—you correct me if I misread it, counsel—July 5th, 1,145 lugs; July 8th, 1,237 lugs; 13th, 660 lugs, and the 19th, 259. This is in 1958, the year you took these pictures. Now, that doesn't disagree with your memory as to the way he was picking, does it?

A. No; I think that is correct.

Q. The point that I want to make is that this picture was taken in the middle, or even possibly a little later than the middle, of his picking harvest?

A. Yes; that's true.

Q. Now, you will note the color there. Now, will you show the other picture I asked for, 54, which was taken on July 20th, according to its label, a day after the last day of his picking, and again, it's my memory that you showed this picture for the heightened red color of the fruit, or pointed that out? [426]

The Court: Well, you haven't put a question to the witness. You made a statement.

(Testimony of Oscar Martin Braun.)

Q. (By Mr. Shepard): Did you show this picture for the heightened red color, or make a comment about the color in making a contrast with, I believe, the Sun Grand?

A. Sir, I believe I mentioned before—his Honor has informed me not to say that, but I didn't take that picture, I believe, for the color; I took it for the shape of the fruit, to show the apex tip of the fruit and the roundness of the fruit as compared to the other variety. That is what I had in mind, I believe, although the color in this fruit does seem darker and more typical of tree ripe fruit, and the same may have been a different sample, there again taking a random sample, you will get some variation in color response.

Q. Did you show any pictures to show the color of the fruit? A. I don't believe I have.

Q. For that purpose?

A. We had the fruit in evidence in court, it was available to see the difference of tree ripe fruit.

Q. It would be your answer then, to the best of your memory, that you made no particular emphasis in your pictures on color? [427]

Mr. Griswold: If the Court please, he has answered, he said he brought the fruit for that purpose.

Mr. Shepard: That is not an answer to my question. That is changing the subject matter.

A. I think it is evident, sir, in looking at the fruit you can see a noticeable difference in color.

(Testimony of Oscar Martin Braun.)

Q. Let's just have one more try at answering this question: Did you take any pictures for the particular purpose of showing color?

The Court: That are in this group. You may have others that you didn't show.

Q. (By Mr. Shepard): Or any others?

A. Specifically I would say that all the pictures taken will show a certain amount of color as the fruit season progressed, that is all I can say. Outside of that, I didn't take any specific just for color. I did—I believe I did take two or three, but I don't have them here.

Q. Would you like to show them?

A. Well, we sent them away to get enlargements but they haven't come back yet. I mean—so I couldn't present them.

Q. Well, this picture, for instance, the primary purpose is something other than color, to show the pit, or something or other? [428]

The Court: He has answered that a half a dozen times. You don't need to answer that.

Mr. Shepard: That is all the questions I have.

The Court: Any redirect?

Mr. Griswold: I would like to exhibit the correspondence here so the witness can mark. I believe that time of ripening was only for the crop of 1958. I would like to ask the witness.

The Clerk: Defendant's L?

Mr. Griswold: Yes.

(Testimony of Oscar Martin Braun.)

Redirect Examination

By Mr. Griswold:

Q. I show you Defendant's L, which is your record on time of ripening, and ask which season that covers?

A. This record is the time of ripening based on picking time, and covers the season for 1958.

Q. And that is the only study that you made about time of ripening? A. Yes, sir.

The Court: That was obvious from his answer given yesterday.

Mr. Griswold: Is it permissible to mark this 1958 season?

The Court: No, it isn't necessary; he has testified what it is.

Mr. Griswold: It doesn't show the year. [429]

The Court: I'll remember.

Mr. Griswold: It doesn't show the year is the only thing.

The Court: I asked that very question, in order to determine. He said it was '58. I have no objection to having the year appear.

Mr. Shepard: Stipulate you can write '58 on there.

The Court: If you want him to add the year, he may. I didn't want anybody else to do it.

Mr. Griswold: Counsel has questioned—

The Court: You want to add 1958 season, all right.

Q. (By Mr. Griswold): Counsel has questioned you at length about the coloration.

(Testimony of Oscar Martin Braun.)

A. Beg your pardon?

Q. Now, you have identified the Exhibits H and G being the Red King, and Exhibit F being the Tagus ranch Sun Grand, and what was the specific purpose of preserving that fruit, Mr. Braun?

A. To see the fruit in its natural color.

Q. And in other words——

A. To get away from the problem of color photography, which isn't quite perfect, and it gives you a chance to look at the fruit as it actually is. That is why I was very anxious to preserve the fruit, sir.

Q. Again, will you state the date on which you picked [430] all this fruit?

The Court: I will sustain the objection. He has already given that, and it isn't necessary. He isn't a woman and he doesn't have to have the last word. This was gone into yesterday. It is not redirect examination.

Mr. Griswold: I have no further questions.

The Court: All right.

Mr. Shepard: No questions.

The Court: All right, step down.

Mr. Griswold: Mr. Hunter.

The Court: We will take a short recess before you call the next witness.

(A short recess was taken.)

Mr. Griswold: Mr. Hunter, come forward and be sworn.

JOSEPH E. HUNTER,

called as a witness by the defendant, having been first duly sworn, was examined and testified as follows:

The Clerk: Just state your full name, please.

The Witness: Joseph E. Hunter.

Direct Examination

By Mr. Griswold:

Q. Your address, Mr. Hunter?

A. Route 4, Box 443, Visalia.

Q. You are the owner of a nectarine orchard?

A. I and my brother own the orchard, yes. [431]

Q. And that is on what road in Tulare County?

A. 68, I believe.

Q. That is the orchard in which the so-called discovery tree is located? A. Yes.

Q. And what is the variety of that orchard?

A. Le Grands, regular.

Q. Directing your attention to that particular tree which we have heard about in this trial, when did you know or did you become conscious of that tree as a specific tree?

A. Well, Mr. Hagler come down one day and took me out there and showed me that tree that had these red nectarines. That was the first time I noticed them.

Mr. Griswold: No further questions.

The Court: Well, do you remember the date?

The Witness: Well, it was in '54. I don't remember, outside of that I don't remember the date.

(Testimony of Joseph E. Hunter.)

The Court: Was anything ever done to the tree?

The Witness: No.

The Court: Still there?

The Witness: Still there.

The Court: All right. Any cross?

Cross Examination

By Mr. Shepard:

Q. Mr. Hunter, the same year that Mr. Hagler showed that [432] tree to you, did Mr. Harry Kim and Mr. Frederic Anderson come out to see that tree later on?

A. I seen Mr. Kim and Mr. Stafford, I believe it was. I didn't know Mr. Anderson, but since now I know he was there.

Q. He might have been along, but you didn't know him? A. I didn't know him.

Q. But you are not saying that he wasn't there?

A. I am not saying he wasn't there.

Q. Yes. Now, at that time, Mr. Hunter, you had a conversation with Mr. Anderson and Mr. Kim, when they came out to look at the tree?

A. No, I didn't.

Q. Didn't you tell Mr. Anderson and Mr. Kim how this variety of nectarine got on that tree?

A. I did not.

Q. As a matter of fact, didn't you tell them that Mr. Riesner had been grafting on that tree?

A. I did not. I didn't talk to them even.

Q. Did you have any conversation with them at all?

(Testimony of Joseph E. Hunter.)

A. The only one I talked—that talked to me was Mr. Stafford, and he didn't talk about this tree. He just walked around through the trees and he mentioned that he thought our trees needed zinc, I remember that.

Q. I am referring directly to Mr. Anderson and Mr. Kim, sitting there and I am pointing to them; you did not have a [433] conversation with these two men? A. I did not.

Q. Had Mr. Riesner been using part of your ranch for nursery work at that time?

A. Not that—he got—not in '54, no.

Q. When did Mr. Riesner take up part of your ranch for his nursery work?

A. That was in '56.

Q. Did you know Mr. Riesner at all before 1956? A. No.

Q. Did he ever come and speak to you before 1956 about this tree? A. No.

Mr. Shepard: That is all the questions we have.

The Court: All right.

Redirect Examination

By Mr. Griswold:

Q. When did you first meet Mr. Riesner?

A. Well, it was—he come over to see about that land, whether it was before that winter or early in '56, I don't remember that part of it. He come over to speak about getting—asked if he could use part of the land for '56.

(Testimony of Joseph E. Hunter.)

Q. That is the first time you met him?

A. Yes.

Mr. Griswold: No questions. [434]

The Court: All right. Step down.

Mr. Griswold: I would like to offer in evidence two pages of a manual of examination and procedure relative plant patent——

The Court: I beg pardon?

Mr. Griswold: Relative plant patent, the procedures in the patent office.

The Court: What is the object?

Mr. Griswold: To set out on plant patents, the United States Department of Agriculture, copies go to them for their approval on any plant patent, as far as the sufficiency as to the variety, that is the purpose. I don't know whether that is in the local——

Mr. Shepard: We object to this, your Honor, as being incompetent, irrelevant and immaterial. We object to it on the further ground that it is apparently an attempt to strengthen their patent, and again I point out to your Honor that they never pleaded or gave us any information about that patent other than a verbal note on the phone prior to this trial, and therefore we had no possibility of setting up some 22 defenses to that patent which are allowed by law, or applying to the Patent Office for all the proceedings and so forth on that patent; whereas, on the other hand, our patent was pleaded from the beginning, they had every oppor-

tunity to go into the manner in which our patent was [435] obtained.

Mr. Griswold: If the Court please——

The Court: I have already stated and I have ruled in the matter, and that provision requiring pleading is subject to the control of the Court, and there is no evidence here that the plaintiff was in any way harmed by the introduction of this patent, the existence of which they knew of, and ultimately, patent or no patent, the question for this Court to decide is whether this is the result of graft of a fruit which is patented by the plaintiff or is the result of a mutation to which the plaintiff cannot claim ownership.

I will sustain the objection, but purely on the ground that the procedure in the Patent Office is not material because the presumption of law is that the patent is a valid patent from the issuance of it, and the manner in which they go about it is not material, and the file of a patent may be received at times in order to show what was in the Patent Office, but the written procedure is not a part of the file in each case. So I am sustaining not on the ground advanced by counsel, but on the ground it is not material.

Mr. Griswold: If the Court please, at this time the defendants rest their case, but ask permission of the Court to have a place for the photographer, certain exhibits of the fruit, and ask that those pictures be taken under the [436] supervision of the clerk and the Court, and then later submitted to the Court. We have the photographer available.

We understand it will take a few moments to take several shots of all the fruit at the same time and under the same conditions, because that is the only practical way.

The Court: Has he got a color camera?

Mr. Griswold: Yes, he has a color camera.

The Court: I think in view of the fact the fruit is perishable I have no objection.

Mr. Shepard: Your Honor, I do have an objection on this ground, that the fruit they have taken here is only two or three fruit at the most, they brought in for the Court to see a whole box; they had an opportunity to make color photos previously. The fruit now——

The Court: Well, I will have them bring back the boxes if you want them, and photograph the entire box.

Mr. Shepard: That would be better.

The Court: Well, we will do it both ways. We have these taken, and then bring back the boxes, if you haven't destroyed them, and we will take pictures of the whole box. So you see, it will go double.

Mr. Griswold: We will do that.

The Court: Then let's go on and take these, and each photo is to be attached to the sack which he photographs, and later you have him—not here, I don't want to take the [437] time of the court.

Mr. Griswold: We will do it then at recess time.

The Court: No, no, take these pictures now. Where are the boxes?

Mr. Griswold: Mr. Braun, do you have those in the icebox?

Mr. Braun: In cold storage.

The Court: Well, then, those you can take in cold storage.

Mr. Shepard: Can those be brought in?

The Court: I don't want to take time doing that. I don't want to take time. I trust the photographer.

Mr. Shepard: I am just asking, for my courtesy, if I can look at them.

The Court: Bring them back. We have reached a bad state in this case, feelings have entered into it, I tried to keep out. Patents are not the subject of feelings, they are questions of money, and when there is money there shouldn't be any feeling at all. Bring them back and have the photographer back this afternoon, but take these three pictures now.

Mr. Griswold: For the record, the photographer should state his name and address.

The Court: Well, he can be sworn. We have sworn photographers just as we have sworn doctors.

Mr. Griswold: Raise your right hand.

The Court: Swear him as a witness. [438]

WILLARD FRED TIDYMAN,
a witness for defendant, having been first duly sworn, was examined and testified as follows:

The Clerk: State your full name, please.

The Witness: Willard Fred Tidyman.

The Court: How do you spell your last name?

The Witness: T-i-d-y-m-a-n.

(Testimony of Willard Fred Tidyman.)

The Court: All right. Tell us how long you have been a photographer.

The Witness: I have been a photographer in Fresno, my own business, for 12 years.

The Court: And what camera are you using?

The Witness: We are using—I haven't decided, it depends on how large a field, but we are using in the way of lenses either a Kodak wide field Ektar or a Kodak 6-inch Ektar, or a Voightlander apo lampbar.

The Court: All right. Go ahead and make pictures of those three. Do you take them out to develop them?

The Witness: Yes, they will go to a color lab for processing.

The Court: I see. All right.

Mr. Shepard: I don't want to interfere, but I will stipulate that can be done during the noon hour if he wants.

The Court: You said you didn't want that. You wanted the boxes brought back. I thought you wanted them taken with [439] the same camera.

Mr. Shepard: No, I didn't mean to intimate that, your Honor. I just thought that the boxes during the noon hour or later would be more representative.

The Court: Well, let him take the pictures, whatever he wants to. As long as he has started, let's take them now. And I am not going to allow you to rest; I will have you bring the boxes here, or if he takes them then you will have to call him

(Testimony of Willard Fred Tidyman.)

back and have him testify that he has taken them. Can you photograph all three at the same time?

The Witness: All the fruit?

The Court: The three sacks, that's all there is. Could you photograph them all? Why don't you do that?

Mr. Griswold: Yes, that was my intention, and so that the exhibit numbers would show in front of each group.

The Court: Yes.

Mr. Griswold: If the clerk could do that, locate the contents and place it so the exhibits will show in front of each group.

The Court: All right. Go ahead, Mr. Eiland, they've got work for you.

Mr. Griswold: That is the only way I can see we could have a complete record of the case.

The Witness: You arrange them right down there (indicating).

The Court: Could they be taken through the cellophane? [440]

The Witness: No.

The Court: Mr. Photographer, you arrange them to suit yourself. You are the authority on that subject.

The Witness: Yes, sir.

(After taking pictures.)

I feel that is sufficient of these.

The Court: All right. They will be returned, and when you furnish the prints they will be filed

(Testimony of Willard Fred Tidyman.)

as an exhibit in the case, as being a photograph of the fruit in the sacks.

Now, gentlemen, the problem arises, the boxes are not here and the boxes are not marked. If they are to be taken here, of course, we could have Professor Braun identify each box, but it occurs to me it takes a lot of time and I think the photographer would be happier if we let him do it in his own studio. Wouldn't you, where you have the paraphernalia that you need?

The Witness: Yes, I would.

The Court: Wouldn't you like to have those boxes? Wouldn't it be easier to do them in your studio?

The Witness: Yes, it would.

The Court: As Mr. Braun is under oath, suppose we designate then, and counsel for the plaintiff may have a representative there, Mr. Braun as a witness to identify or make cards that could be photographed showing each box as he identified them here, and then he can later testify that he placed them on, and in that way we would save time. [441]

Mr. Shepard: I will so stipulate, your Honor. It is not necessary for Mr. Braun to come and testify. I will stipulate that he can take the fruit to the photographer, and make the labels.

The Court: All right. You make labels that can be reproduced, and identify the boxes.

Mr. Braun: Your Honor, that referred to the three boxes that were here?

The Court: Yes, that is all. The boxes from

(Testimony of Willard Fred Tidyman.)

which you took the samples, and then you can identify them. You can write there, box so and so, from which sample, exhibit, whatever the number is, in script that will show in the photograph. But we are trying to save time, that is all. And then when the prints are ready, they can be brought in and put into evidence in some manner.

Mr. Shepard: So stipulate, your Honor.

The Court: Why don't we give them numbers now?

Mr. Griswold: Could we give them the same numbers or designations in relation to the three samples of which the pictures were taken?

The Court: You can call the photo "A" as being a picture of the samples in court, three different exhibits.

Mr. Houk: Exhibits F, G and H.

The Court: Have we got a number after that?

The Clerk: We are through L. [442]

The Court: We are down through L. Well, then we can take one and call that F-1, being a photograph of the sample fruits in the three bags. Then which box shall we use first? Which is the earliest? What is F?

The Clerk: F is Tagus ranch.

The Court: All right. Then F-1 will be a photograph of all three. Then F-2 will be the box from the Tagus ranch; we will give it a number, and the clerk can mark it later on when the photo comes. Then we will have G-1, which will be a photograph of the box from which?

Mr. Shepard: That is the Red King original.

(Testimony of Willard Fred Tidyman.)

The Court: Red King original. All right.

Mr. Shepard: H is the Red King, Hagler orchard.

The Court: H-1. You see? Then you can put on the box the same identification. We are using F-2, G-1 and H-1 in that order. That identifies them, and when the photographs come turn them over to the clerk. Get them as quickly as possible. It is evident we can't finish today. How long will it take? Could I have them by Monday?

The Witness: No, sir.

The Court: Why?

The Witness: It is impossible physically.

The Court: Do you send them to a laboratory out of town?

The Witness: Yes, sir.

The Court: Oh, I see. All right. Then we will take [443] them whenever we get them.

The Witness: It will be next week.

The Court: All right. Next week is a long week.

Mr. Griswold: The defendant rests.

The Court: With that you rest. All right. You may withdraw from the courtroom, Mr. Photographer.

In order to gauge our time, gentlemen, how much time will you want for rebuttal?

Mr. Shepard: I think I could finish this afternoon, your Honor.

The Court: Well, I will say this, gentlemen, whether we finish this afternoon or not, it will be late and even if all the testimony is in I will con-

tinue the case to Monday and hear arguments on Monday. I have already cancelled the law and motion matters in Los Angeles, and we will hear the argument. Tuesday is a holiday, and on Wednesday I have a criminal case to try without a jury. So in that manner we will have time and you can organize your arguments.

Mr. Shepard: Ten o'clock on Monday?

The Court: Yes, the regular time, because I have no calendar here Monday, unless an emergency matter.

This has occurred to me, gentlemen: ordinarily I don't think in a case of this character a view of the premises is indicated, but if either of you feel that viewing the tree might help, I am willing to go out, if you will take me out [444] there, and take the reporter along and the clerk, and view the tree. I am not interested in viewing the premises, because we would have to view the Tagus ranch and everything else, but if viewing the tree would in your opinion be helpful, I would be very glad to do it. It shouldn't take us very long. How far is it?

Mr. Griswold: About 30 miles. I thought of that, and I think that would be very helpful if we could stipulate for a view of the particular tree.

Mr. Shepard: I don't believe that it would be—well, I don't know, really.

The Court: I am assuming that a tree that has been grafted will show signs of graft for a long time after.

Mr. Shepard: That is just what I assumed. I think that is not true, your Honor.

The Court: It isn't?

Mr. Shepard: With due respect to your Honor.

The Court: Well, I don't know, I haven't engaged in agriculture.

Mr. Shepard: My experts tell me otherwise.

Mr. Griswold: We would stipulate, and as a matter of fact I think it would be helpful for the tree to be viewed by the Court.

The Court: Well, if counsel says there is no sign by which it can be pointed out by either side as showing graft [445] or not graft, then viewing the tree itself wouldn't go above the testimony which has been given here as to what took place.

Mr. Shepard: I don't think it would be helpful, your Honor.

The Court: Well, think about it. If you wish, we can even do it after the argument and we can make a record of what was done. I have gone all sorts of places, including Death Valley, to view premises in conjunction with lawsuits we have had.

All right, gentlemen, we will convene at 1:30, because I can't possibly go beyond 4:30 and take that plane I am to take to Los Angeles. I have to take the plane to Los Angeles tonight, so we better convene at 1:30.

(Thereupon, at 12:00 o'clock noon a recess was taken until 1:30 o'clock p.m. of the same day.) [446]

Afternoon Session—1:30 P.M.

The Court: All right, gentlemen, proceed.

Mr. Shepard: We will call Dr. Olmo, Dr. Harold P. Olmo.

HAROLD P. OLMO,

called as a witness by plaintiff in rebuttal, having been first duly sworn, was examined and testified as follows:

The Clerk: State your full name, please.

The Witness: Harold P. Olmo, O-l-m-o.

Direct Examination

By Mr. Shepard:

Q. Dr. Olmo, will you give us your address, your residence?

A. Box 102, Davis, California.

Q. And what is your occupation?

A. I am professor of viticulture at the University of California.

Q. At Davis? A. At Davis.

Q. How long have you been teaching at that institution? A. About 25 years.

Q. And everybody has been taking down their hair around here, so I will ask you your age?

A. My age is 49.

Q. All right. Now, will you tell us where you took [447] your undergraduate college work?

A. Undergraduate college work, I took both at Berkeley and Davis.

Q. Both in the University of California?

(Testimony of Harold P. Olmo.)

A. Both in the University of California.

Q. Did you receive any B.A. or B.S.?

A. I received a B.S. in agriculture at Berkeley and then continued on for Ph.D. in genetics.

Q. And when did you obtain your Ph.D.?

A. In 1933, I believe.

Q. And you mentioned that it was obtained in genetics. Would you explain a little further?

A. Well, I took my graduate work with Professor Roy E. Clausson at Berkeley, who I think was considered one of the outstanding workers in that field in the country.

Q. And was your doctorate on genetics in general as to all life forms, or any specialty?

A. Yes, when you take a doctorate in genetics at the University it is in general genetics, although you may take one particular subject as your thesis subject.

Q. What was that thesis subject?

A. I worked on cyco genetics of tobacco, for the thesis.

Q. And after you received your doctorate what did you do then?

A. I obtained a position at Davis, and then started [448] work in fruit breeding.

Q. And will you tell us generally what courses you have taught at Davis over the years?

A. I have of course taught different courses, but the two courses I have taught most consistently are elementary viticulture, which is grape growing,

(Testimony of Harold P. Olmo.)

and the second course which is an upper division course, the course in fruit breeding.

Q. Now, in addition to these courses, or perhaps part of them you explained, do you do experimental work, or supervise the same?

A. Yes, a large portion of my time is spent on research work in fruit breeding.

Q. And have you had occasion to write any papers, from time to time, on the subject?

A. Yes, I have written a fairly large number of publications.

Q. Would you list some of the publications in which you have published papers?

A. Most of these papers are on cytology and genetics of grapes. I have had graduate students, however, whom I have directed, who have published in other fields of fruit breeding.

Q. Now, has genetics as applied to plant life continued to be one of your specialties or your special interest? [449] A. Yes.

Q. Now, you came down here in response to a subpoena by me last week, is that correct?

A. I did.

Q. And at that time I sent you a letter and a chart, and asked your opinion on it, is that correct? A. Yes.

Q. Now, I would like to introduce, or show you a chart here, which I showed to counsel, showing some of the characteristics of LeGrand and the Red King.

(Testimony of Harold P. Olmo.)

Mr. Shepard: I would like to introduce this for identification, your Honor. I will put on a witness later that will substantiate it.

The Court: It may be marked for identification, Plaintiff's——

The Clerk: 16.

The Court: ——16 for identification.

(The document referred to was marked as Plaintiff's Exhibit 16 for identification.)

Q. (By Mr. Shepard): Now, will you generally explain mutations as they may apply to bud sports in plant life, especially with regard to tree fruit? Will you explain how such things may occur?

A. I should perhaps like to limit this to the case in [450] point. It is a broad subject.

Q. All right. Are you finished with that, Mr. Eiland?

The Clerk: Yes.

Q. (By Mr. Shepard): Now, I hand you, sir, Plaintiff's Exhibit for identification 16. You are familiar with the Le Grand nectarine yourself?

A. I know the Le Grand variety quite well.

Q. You of course have not had a chance to observe the so-called Red King variety?

A. I have observed it on one occasion, fruit only.

Q. Here in court?

A. No, Mr. Taylor brought me some samples several months ago.

(Testimony of Harold P. Olmo.)

Q. But you haven't observed the tree, or anything? A. No, I have not.

Q. Now, then, assuming the characteristics on this chart to be accurate, and I have listed therein the characteristics as to Le Grand and Red King, as to the glands, flowers, stones, flesh color, kernel, ripening period, surface color, russeting, flavor, and size and vigor of tree, among others, I believe. Assuming all those descriptions to be accurate, in your opinion, would it be possible for a bud sport to have developed from the Le Grand tree with all of the characteristics listed in that chart under Red King? [451]

A. Well, I would place that probably as a proposition of probability. I would say it would be nearly impossible to imagine such a thing could occur, in which you had so many individual characters changing simultaneously, or at the same time.

Q. Now, would you explain the basis of that answer?

A. Well, to a geneticist, we know that certain of these characters are inherent in the specific individual character. For example, the leaf gland type is inherited in a certain pattern in one particular lobus or center in the cell, in the chromosome of the cell. If we go to another characteristic, for example, the surface, one is less smooth than the other presumably, or one ripens at a different period than the other. These are characters that are entirely separate as far as we know in inheritance from the

(Testimony of Harold P. Olmo.)

gland type. So you would have to assume that these other changes that had occurred had occurred here in this case simultaneously. Now, for such a thing to happen almost reaches astronomical proportions, because mutation in the peach is not by any means a frequent occurrence. We also have the knowledge about a mutation, or several mutations possibly of the Le Grand itself, in which case the changes are not this widespread, they only affect usually one character.

Q. Now, would you explain a little fuller why you say astronomical chances with reference to the chromosome and genes? [452]

A. Well, let's say the change in leaf gland, as we compare this with other similar known mutations, as far as rate is concerned, one might assume even at the best that it might occur, say, once in 100,000 trees, for example. This would not be outside the general realm of mutation rate for such characters. This would then be one in 100,000. Well, if you were to have a change in ripening, one might assume that it would happen probably in the same way, at least as far as magnitude is concerned, so in order to get both changes combined at the same time, it would mean that you would have to take the product of the two separate mutations which would take you up to one in 100,000 times one in 100,000, or one in a million for two of these changes to occur possibly at the same time. So you can see, using this as a rough example, a rough

(Testimony of Harold P. Olmo.)

approximation, that if you have other differences as well, it gets to be almost astronomical in number.

The other thing is, we do not know of any proven mutations in the peach that combine so many characters simultaneously.

Q. Has there been any such sport mutation known in horticultural experience or history, with such wide variety of characteristics from the so-called parent?

A. There are some examples in other fruits, but there the background problem is different. For example, in apples, [453] you may get multiple changes but these are due actually to another phenomenon which is fairly well understood, not mutation itself but rather loss of chromosome material.

Q. Is there a difference in the number of chromosomes between peaches and apples?

A. Yes, the peach is fairly simple in its chromosome constitution. There are 16 chromosomes in the cells, in the growing cells. In the apple there are 34 and it is a complex group.

Q. There may be more possibility of change with more chromosome structures?

A. Yes, that is quite true.

Mr. Shepard: I have no further questions.

The Court: Cross-examine.

Cross-Examination

By Mr. Griswold:

Q. Several months ago you inspected samples of

(Testimony of Harold P. Olmo.)

Red King? A. Yes.

Q. And that was Mr. Taylor, who is in court, who brought them to you at Davis, California?

A. He did. He brought me also a sample of the Sun Grand, I take it, along with it.

Q. Did you make any tests of those two varieties?

A. After he left I compared the two samples of fruit, and I could find no apparent differences, as far as my [454] examination.

Q. Did you make any written record of your study? A. I did not.

Q. Will you describe in detail what you did in work between the two fruits, the Red King and the Sun Grand? Can you fix the date more specifically?

A. I believe it was toward the end of August. I would like to check with Mr. Taylor on it; he can probably be more specific.

Q. That is good enough. Now tell us in detail what work you did on the two varieties?

A. I made only a superficial examination. I looked at the skin and the color, and also cut the fruits open and looked at the pits, but I considered the sample rather small. I don't recall the exact number, but he had only probably six or eight fruits, I believe, of each.

Q. Would you say too small a sample to make a determination?

A. Well, as far as determinations go with accuracy, I would say the sample was too small.

(Testimony of Harold P. Olmo.)

Q. And when you say superficial, was that a cursory examination?

A. Yes, I made no measurements, for example, with a caliper, nor did I examine in any other detail.

Q. You heard the description here as to the various [455] methods of determining the varieties, according to Blake and Edgerton. You are familiar with that publication? A. I am.

Q. And would you say that that is somewhat a standard in the United States for classification from a variety standpoint?

Mr. Shepard: I object to the question as being ambiguous. I don't know what standard he is talking about.

Mr. Griswold: Standard for classification of peach or nectarine varieties.

Mr. Shepard: There have been several, counsel. I don't know which one he is referring to.

Mr. Griswold: Blake and Edgerton.

Mr. Shepard: Do they have the classification system set up?

Mr. Griswold: He said he was familiar with that.

The Court: Well, overruled. Go ahead.

A. They do mention characters in there that might be used for classification, although there are many systems that could be used.

Q. (By Mr. Griswold): What other systems are there?

(Testimony of Harold P. Olmo.)

A. Well, for example, this French work, Souty and Caillavet, point out another method.

Q. Well, what else can you do? You heard Mr. Braun [456] testify, did you not? What else can you do, what other physical objective or other measurements or observations can be made in order to determine a difference or a variety?

A. I can give you methods that might be quite satisfactory, but I don't know whether you would want to accept them. Of course, the obvious thing would be to put the two varieties under the same environment; in other words, graft them on the same tree. Perhaps an alternate way is duplicate that a number of times and make comparisons on that basis. I certainly didn't mean to indicate that I considered the two fruit specimens the same from the samples I had. I stated merely that I could not tell any difference by superficial examination, but I admit that a comparison should go much farther than this.

Q. In other words, a layman might wonder whether the pits are important, or the taste of the kernel is important. You agree that there must be a process of elimination of many factors?

A. All factors should be considered.

Q. You have observed the exhibits which I have placed before you? A. Yes.

Mr. Shepard: What are those?

Mr. Griswold: Those are Exhibits H, F and G.

Q. Are you able to express an opinion on your

(Testimony of Harold P. Olmo.)

observation [457] of those fruits, as to their varieties?

A. I don't think one should express an opinion on a variety on the basis of a few fruit, especially if they are picked from different orchards and may be sampled differently.

Q. You have testified that a sport, in the hypothetical case given to you, is possible?

Mr. Shepard: He didn't say it was possible. Use his words.

Mr. Griswold: Well, I misunderstood then.

The Court: I think he said it is a possibility but he doubted it.

The Witness: Very remote.

The Court: Very remote.

The Witness: I indicated by a distinct example that it would be a very remote possibility, so remote that one could consider it practically impossible. Does that clarify the statement?

Q. (By Mr. Griswold): That is the way I understood. You place it in the matter of possibility of occurring given the set of facts which you have on that paper? A. Yes.

Q. Now, assume that the root stock was a peach, a seedling peach as has been testified here by Mr. Kim, assume a seedling peach, and a sport having the characteristics of the Red King, an unknown peach seedling root and a sport or mutation [458] growing on that unknown—we don't know the characteristics of that peach—what would you say

(Testimony of Harold P. Olmo.)

would be the probability in nature of that occurring?

A. From a sport of an unknown peach?

Q. Yes. A. From what?

Q. To a Red King, having all the characteristics that have been testified here, the photographs you have seen? You have seen the slides, have you not? You saw the slides?

A. Yes. I didn't see all of them, I guess I saw most of them.

Q. What I am asking, you have testified——

The Court: Now, you are going into another question. Give the gentleman a chance to answer one question at a time.

Mr. Griswold: Did you understand the question?

The Witness: Would you repeat it, please?

The Court: Let the reporter read it. Please, Miss Schulke.

(Question read.)

A. Well, I can answer that in this way: of all the millions of peach trees that are grown, only one verified instance in California has been found where a nectarine has arisen from a peach.

Q. (By Mr. Griswold): What is that?

A. And that is a Sequoia nectarine coming from a [459] Hutchinson peach. There is no other instance that I know of that has been properly verified where such a mutation has occurred. Does that answer your question?

Q. Yes. Do you know how many peach trees

(Testimony of Harold P. Olmo.)

that would come from? What is the basis there? How many peach trees would you say?

A. Well, this would of course include all the peach trees we have grown, apparently under observation, since the beginning of peach culture here. At least if they occurred they were certainly never reported.

Q. Well, that's an important point. Would you say that all mutations are discovered?

A. Oh, by no means, that would be silly.

Q. So that it is a question, in addition to the occurrence, also the discovery of that occurrence?

A. Right.

Q. So you have two variables? A. Right.

Q. Are you familiar with the Gold King?

A. I have seen specimens of it. I am not too familiar with the variety as a whole.

Q. Do you know how it was derived?

A. Yes, I understand it was reported to be a sport of the Le Grand.

Q. That would be in addition—you said peach, the [460] Sequoia came from a peach.

A. That is right, but you asked that question. You asked if I had known of a peach being derived from a nectarine, did you not?

Q. Yes. The Gold King, as you said, is a sport from? A. The Le Grand.

Q. The Le Grand. Am I correct that of varieties of fruit and trees, that nectarines are one that is the classical example of mutation?

(Testimony of Harold P. Olmo.)

A. It can be used as a good example of mutation, but it is certainly not classical.

Q. Well, I read that in the *Encyclopedia Britannica*——

The Court: Well, is it in the sense that mutations occur more often than would in the parent tree, as we call it? Is that a good expression, calling the tree the parent tree?

The Witness: Yes, it would be. In other words, it is a derivative of the peach.

The Court: Well, the chances of a sport deriving from a nectarine would be as rare as a sport deriving from a peach?

The Witness: You mean a new nectarine derived from another nectarine?

The Court: Yes.

The Witness: I don't know, your Honor. Probably not much difference as far as mutation rate is concerned.

The Court: How do you account for the large number of [461] nectarines which are classified as distinct?

The Witness: Well, because many of them, after the appearance of original changes from the peach, are related in the sense that they are seedling. Once you obtain a nectarine if you fertilize the nectarine you continue to get nectarines; you don't go back to the peach.

The Court: That is right. So these varieties are what, this large variety?

The Witness: This large variety of nectarines

(Testimony of Harold P. Olmo.)

are simply seedlings of nectarine grown mainly although they may come occasionally from peaches.

The Court: I see.

Q. (By Mr. Griswold): Is there any literature on this precise subject we are dealing with here, namely mutations in peaches and nectarines?

A. I would say that the exact scientific study of these mutations is rather recent, and I don't believe there is much published work on it.

Q. Well, is there anything published on mutations in nectarines? A. Yes, there is.

Q. Will you state it?

A. There is a piece of work done by Dr. Derman of the United States Department of Agriculture several years ago, [462] describing the several nectarine mutations.

Q. Which ones?

A. Well, now, I can think of a little bit here. There is one that apparently was derived from the J. H. Hale.

Q. A nectarine from a J. H. Hale?

A. Yes, but that was an unstable type.

Q. That makes two that came from a peach, the Sequoia, and what was the last?

A. This happened in New Jersey. I said within California before, did I not?

The Court: I don't think you limited it.

The Witness: Yes, I said with all the peaches grown in California, only this one had a sport to my knowledge.

Q. (By Mr. Griswold): This other one in New

(Testimony of Harold P. Olmo.)

Jersey that mutated from a peach to a nectarine?

A. It is not a complete mutation, as far as I know it is still not a good nectarine variety.

Q. Do you have a copy of that bulletin or study with you?

A. No, I do not have one with me, but I could furnish you with the reference.

Q. Did you read it over before coming here?

A. No, I did not; I read it several years ago.

Q. Are there any other books that deal with this precise matter of mutations in nectarines? [463]

A. Oh, of course, if you want to go into some of the old works, Charles Darwin's book, he mentions nectarines.

Q. You mean the *Origin of the Species*?

A. Yes, not in the *Origin of the Species*, but variations in animal and plant domestication, a different book.

Q. Now, you have expressed yourself in numerical number, which I would like for you to consider, what the probabilities of—the probabilities of this sport occurring with the characteristics of Red King, assuming for the purpose of this question consistency in the parent from which the sport arises, that is, consistency in characteristics?

A. Well, you only mentioned a single sport known of the Le Grand, is that correct, which is the Gold King?

Q. No, I am speaking now of the Red King. Assume no conflicts in characteristics so that you don't have multiple changes, what then would be

(Testimony of Harold P. Olmo.)

your opinion as to the probability of this sport occurring from such a parent?

A. Oh, I can't conceive of it having originated from Le Grand with this many differences.

Q. I am now asking of a parent, for the purpose of this question you can assume a peach, a seedling peach was planted there, and that a sport developed from that seedling peach. My question is, what probability is there of that occurring, assuming no multiple conflicts in characteristics—you can forget the Le Grand—assume a peach root or a parent, can [464] you express that in degree of probability?

Mr. Shepard: I object to the question as being ambiguous. Do you mean a peach that changed to a nectarine, just one change?

Mr. Griswold: With the characteristics of Red King, all of the characteristics of Red King, that is my question.

A. Well, this is my point, this does not seem to be a single mutation; in other words, the globose glands is one character, for example, genetically speaking; these other characters would obviously have to be due to other genetic mutations of a different kind, and as I pointed out before as these occur simultaneously from the Le Grand is an extremely remote possibility.

The Court: I gather then that in your view, assuming these changes are real, there are two distinct fruits, two distinct nectarines?

(Testimony of Harold P. Olmo.)

The Witness: No, we are talking now, your Honor, about the Red Grand as having originated—or rather, the Red King having originated from the Le Grand.

The Court: Yes, that's right.

The Witness: Which are two quite distinctly different varieties. In other words——

The Court: Then in your view the change is so great it could not have originated as a sport from the other, is that it?

The Witness: That is right, the changes are not simple [465] changes, they involve several distinct and different characters.

The Court. Then I gather—this in the realm of opinion, but I want your answer although it is the type of answer by an expert by which I am not bound.

The Witness: Yes.

The Court: Then in your view you would eliminate mutation as a basis; then what would you attribute the presence of—let's use a medical term, the incidence of so many changes to?

The Witness: It might be—I don't know. I cannot explain it on the basis of mutation, so I have no other alternative.

The Court: But without looking at the fruit you said you cannot—we have got lugs here but we have been carrying them back and forth, photographing them, so we don't have any larger amount of fruit such as we had here yesterday—you were not here when the lugs were here yesterday, were you?

(Testimony of Harold P. Olmo.)

The Witness: I was here yesterday.

The Court: Did you look at those boxes?

The Witness: Yes, your Honor.

The Court: Did you see the boxes?

The Witness: Yes, your Honor.

The Court: Now, assuming the distinctions which are pointed on the charts are real, have you any opinion as to what may have caused them in the nectarine which is known as [466] the Red King?

The Witness: I can't think of any.

The Court: You can't think of any?

The Witness: No, except perhaps it might have arisen from a seedling that could have been a separate plant, which of course is not a mutation.

The Court: Well, would a seedling be likely to produce the variety of changes and characteristics which are noted on that chart?

The Witness: Oh, yes, that might be possible.

The Court: My subject is variety. I didn't hear your answer.

The Witness: I think it would be much more reasonable to suspect that such a variety might have arisen as a seedling rather than as a mutation directly from the Le Grand.

The Court: All right. Any further questions?

Mr. Griswold: Just one or two more, your Honor.

Q. Assume that this particular tree, which was supposed to be a Le Grand, was in fact a seedling tree, what is the chance in nature of producing fruit like the Red King?

(Testimony of Harold P. Olmo.)

A. I would say very remote.

Q. Can you express it in probabilities?

A. No, I could not. This depends, of course, on the starting point, what peaches were in the neighborhood.

Q. Let's assume this, let's assume that a farmer orders [467] a Le Grand orchard in 1950, and that orchard comes into bearing in 1954; one of the trees produces—it's on a peach root of unknown variety, one limb produces Le Grand nectarines and another limb which grew naturally from the base at about 15 inches produces the Red King, which you have observed, that no human agency touched that tree; what would be your opinion for that occurrence?

A. Practically nil. I don't see how it could happen.

Q. But if it did happen what is your opinion?
The Court: He says it couldn't.

The Witness: That is my answer, it is practically nil, it couldn't have.

Q. (By Mr. Griswold): Well, you have considered a moment ago a seedling could be responsible.

The Court: You pronounce it the Latin way, nil, isn't that correct? I want it for the benefit of the reporter.

The Witness: If I understand you correctly, counsel, you said the peach, this peach tree would give rise to one branch that was Le Grand nectarine

(Testimony of Harold P. Olmo.)

and to another branch that was Red King, is that correct?

Q. (By Mr. Griswold): Yes.

A. I would say the possibility of that happening would be nil. [468]

Q. You mean it is impossible.

A. Impossible. I want to make this further statement, this assumption is that this original peach tree was not manipulated in any way; it was a natural growth?

The Court: That was the assumption you were to make, from the testimony that was offered that this tree was not grafted, nothing was done to it except this growth was observed, shown to people, examined, and they produced trees and afterwards from the buds of the tree other trees were grown.

The Witness: Thank you, your Honor.

Q. (By Mr. Griswold): I will ask you just a couple more questions. How could a seedling produce this Red King?

A. Well, this can be explained by any plant breeder. Obviously, you can get seeds of nectarines and plant them and obtain other varieties, but of course you would never expect to exactly duplicate Red King or any other variety, because this would be almost impossible. There are a lot of genetic factors involved in making up a variety.

Q. There is a school of thought that all plant and life form in a series of interrelated mutations?

A. I have never heard of such a theory unless you state it in other words.

(Testimony of Harold P. Olmo.)

Q. Well, aren't we humans—a school of thought that we [469] humans are the end result of a series of mutations?

A. No, I don't know of any school of thought with that idea.

Q. Well, plant and life forms change, do they not, over the millions of years recorded in the rock geologically? How do you explain those changes?

A. Yes, these changes can be explained on that position.

The Court: I think we are getting far away now, pretty soon we will land in Russia. I don't think either Mr. Braun or the witness would want to discuss the mutations he is supposed to have brought about.

Mr. Griswold: Just one more.

Q. You have given us two cases of mutations of nectarine from peach. Are there any more you can think of?

A. There are other recorded cases in the literature. I mentioned Darwin. He mentioned the early Rivers which is an old nectarine variety that was originated from the peach. That was hearsay.

Q. That was in England? A. Yes.

Q. And any others that you can recall?

A. Those were all that I recall.

The Court: To what tree did you apply the name Hutchinson? Didn't I hear the word Hutchinson?

(Testimony of Harold P. Olmo.)

The Witness: I mentioned the single case in California, [470] the appearance of the Sequoia nectarine originating from a Hutchinson peach.

The Court: Hutchinson.

The Witness: This happened down near Poplar, Mr. Williams' orchard.

The Court: All right.

Q. (By Mr. Griswold): Do you know how many varieties of nectarines are grown in California?

A. The total number?

Q. Yes.

A. I don't believe anybody knows exactly.

Q. Do you know all their names?

A. I would say that I know most of the names.

Q. And do experts sometimes have trouble making a distinction between the various varieties?

A. You bet they do.

Mr. Griswold: No further questions.

Redirect Examination

By Mr. Shepard:

Q. Dr. Olmo, on such occasions as sports do occur, or have occurred, do they generally sport to better or poorer characteristics than the parent?

A. I would say that most sports appearing are poorer than the parent. [471]

The Court: Well, doesn't subsequent cultivation take care of that?

The Witness: No, because most of these changes

(Testimony of Harold P. Olmo.)

are at random, most of the random changes from the standpoint that we look upon a variety was unfavorable. This is a natural consequence of mutation itself.

Mr. Shepard: I think that is all I have.

The Court: All right, doctor, step down.

The Witness: Thank you, your Honor.

Mr. Shepard: May the doctor be excused?

Mr. Griswold: Yes.

The Court: Yes, he may be excused. Call your next witness.

Mr. Shepard: We will call Mr. Girozian.

VAUGHN GIROZIAN,

called as a witness by plaintiff in rebuttal, having been first duly sworn, was examined and testified as follows:

The Clerk: State your full name, please.

The Witness: Vaughn Girozian.

The Clerk: Have that seat.

Direct Examination

By Mr. Shepard:

Q. Mr. Girozian, where do you live?

A. I live at 1839 Country Club Lane, in Fresno.

Q. And do you have a packing house in Kingsburg? [472] A. Yes, sir.

Q. And you have regularly been the shipper of Mr. Lyle Hagler's fruit? A. Yes, sir.

Q. In recent years? A. Yes, sir.

Q. And did you bring with you records of the pack-out sizes of Mr. Lyle Hagler's fruit for the 1958 season, that is in regard to the Red Kings?

A. Yes, sir.

Q. Do we have those here?

A. You have got them (indicating counsel).

The Court: To whom were you pointing?

The Witness: One of the attorneys down there.

The Court: All right. We won't take them away from you. We will just use them and return them.

The Witness: I'm not scared of that.

Mr. Houk: I thought those were Lyle's, that is why I didn't bring them up.

The Witness: You want 1958?

Q. (By Mr. Shepard): Yes. Can you read them to us, or how do you have them listed?

A. I've got them all listed by date, I guess. Well, you see, your Honor, my dates—they pick the fruit on a [473] certain date but then when it is packed it is put in cold storage and maybe we sell them a week or ten days later.

The Court: What does that indicate?

The Witness: This indicates on 7-9-58, manifest 307—you want the dates of the manifests?

Q. (By Mr. Shepard): Let me state, I am not interested in the dates. I am just interested in the pack-out sizes.

The Court: Oh, the pack-out sizes. Have you got it in sizes?

The Witness: Yes, sir.

The Court: All right, then give him the dates and the sizes.

(Testimony of Vaughn Girozian.)

Q. (By Mr. Shepard): The sizes and number of lugs.

A. Not the dates. All right. 7-9, 284 88s, and on the same day——

Q. 204? A. 284.

Q. All right, go ahead.

A. And on the same day there was 86 90s, on 7-5 there was nine 60s——

Q. Wait a minute, 960?

A. No, nine 60 size.

Q. Oh, nine 60s. [474]

A. Yes, and seven 64s. On 7-5 there were 13 96s; on 7-18 there were 8 60s and 2 64s.

Q. Eight what? A. Eight 60 size.

Q. Yes. A. And two 64s.

Q. All right.

A. On 7-3 there was 46 60s, 45 64s. On 7-3 there was 37 88s——

Q. 37 what?

A. 37 88 sizes, and 2 96s. On 7-21 there was 6 60s and 5 64s. On 7-10 there was 240 70s. On 7-15 there was 268 80s and 21 84s. On 7-19 there was one 56 and ten 60s. And on 8-3 there was 54 84s and 25 96s.

Q. That is the total pack-out of the Red King nectarines from the Lyle Hagler ranch in 1958?

A. Just a minute. Does that total up 4409? There must be another set.

The Court: You must be a good mathematician, you can look at that and tell.

(Testimony of Vaughn Girozian.)

Mr. Shepard: I think it totals about 1,000, 1,500.

The Court: Perhaps there is another sheet. Some of you gentlemen at the table can help, you have seen these?

Mr. Griswold: No, I can't, your Honor.

The Court: Can you help, Mr. Byrnes? [475]

Mr. Byrnes: Yes.

The Witness: That is near 1174. They must have skipped the other page.

Mr. Byrnes: We tried to photostat these.

(Conference between witness and Mr. Byrnes, looking through papers.)

The Witness: I notice here 67, and over here total boxes sold, so obviously there were 20 more boxes of some sizes there.

Mr. Shepard: You have a double column here.

Mr. Byrnes: Did you get both those?

The Witness: 289 88s, and here is 371 70s and 561 80s.

Mr. Byrnes: You have three columns, there is your trouble. Let me check those columns for you.

Mr. Shepard: Give me his name there again, for the record.

Mr. Byrnes: David Byrnes is my name. Do you want the dates as well?

Mr. Shepard: Just read the dates because I took those down.

The Court: Do it the way you read them.

The Witness: All right. 7-5, July 5th, there was

(Testimony of Vaughn Girozian.)

an additional 271 70s, 561 80s, 36 84s and 148 88s. On July 18th there was an additional 159 70s; on July 3rd there was an additional 423 70s, and 360 80s; on July 10th there was [476] 555 80s and 57 84s; on July 15th there was 127 88s and 69 96s; on July 19th there was an additional three 64s, 73 70s, 85 80s and eight 84s. I am going to make an entry to see if we did get them all. I have 4229, that is close enough.

The Court: That is close enough. We have all the dates.

Mr. Shepard: We have no further questions of the witness.

The Court: Any questions, Mr. Griswold?

Cross-Examination

By Mr. Griswold:

Q. Just one question, your Honor. This Gold King, you packed this for how long?

A. We just packed about 269 in '56, and I think a little over 4,000 in '57, and forty-two, whatever it was now in 1958.

Q. Red King, I am sorry. So you have seen considerable quantities going through your shed?

A. Well, through Mr. Hagler's shed.

Q. How is that fruit packed when it comes in from the orchard? Just describe the operation.

A. Well, they pick it in the field, like I told Mr. Hagler, they pick it a little on the green side; if we would let it ripen more we would have gained

(Testimony of Vaughn Girozian.)

size, all the 80s would be 70s, but we like to ship it a little on the green side when we ship to New York and long distances, and so we pick it about three or four days earlier than it should be. [477]

Q. That would explain the sizes you have described? A. Yes.

Q. What I want to ask you is this, when they pick this fruit, the Red King, out in the field and bring it to the shed, it is repacked, is it not?

A. Yes, all sizes are in the boxes and the girls get three or four lugs and they segregate different sizes.

Q. And that is poured on a moving belt?

A. Yes, it is on a belt where the girls sort them out, put different sizes in different boxes.

Q. And there are some 50 or 60 girls who pick the fruit out? A. Yes, we have about 80.

Q. When did you first learn of the Red King?

A. Well, I was in the office, I do all the selling there, and Mr. Hagler brought it in to me and showed it to me, I think that was in '54, if I am not mistaken, and he asked me what I thought about it, and I——

Mr. Shepard: Now, just a moment, we object to the conversation.

Mr. Griswold: Yes.

The Court: All right.

The Witness: Is it O.K. to go ahead, your Honor?

The Court: No. [478]

(Testimony of Vaughn Girozian.)

Q. (By Mr. Griswold): How long have you been in the fruit business?

A. Oh, I have been in the fruit business ever since I was 16; I used to help my father do the field work, and in 1934 I went into business for myself.

Q. And in a normal year what is your total sales of fruit?

A. Well, last year we shipped 605,000 packages of just tree fruit alone.

Q. What would that be worth? I mean your gross receipts from the sales?

A. Oh, around two and a half million to two and three-quarters million dollars worth.

Q. And you sell in all the eastern markets?

A. All over the United States, and export.

Q. Are you familiar with the variety known as Sun Grand, or plant patent 974?

Mr. Shepard: Now, if your Honor please, I am——

The Court: That is not cross-examination.

Mr. Shepard: Quite obviously I had to call a hostile witness to get certain information for my case. I don't think he should go beyond what I did on direct.

The Court: You can call him back later on. You didn't call him as a hostile witness. You called him to get information, you got the information you wanted. But you can't use [479] him for a different purpose. He is available if you want to use him in surrebuttal, or whatever you call it, and I will ask him to remain.

Mr. Griswold: Thank you, your Honor. That is all I have. I will ask Mr. Girozian to remain in the courtroom.

The Court: Well, all right. Just step down. Just remain in the courtroom.

Mr. Shepard: We call Mr. Taylor back to the stand.

JAMES WILLIAM TAYLOR

a witness for plaintiff in rebuttal, having been previously duly sworn, was examined and testified as follows.

Direct Examination

By Mr. Shepard:

Q. Mr. Taylor, will you——

The Court: Mr. Taylor was sworn before.

Q. (By Mr. Shepard): ——examine Plaintiff's Exhibit 16 for identification. Are you familiar with the characteristics of the LeGrand fruit shown thereon?

A. Yes, sir.

Q. And insofar as those characteristics have run, would you say that those are accurate descriptions of the LeGrand nectarine?

A. As far as descriptive data goes, yes, as they refer to the LeGrand, that is correct. [480]

Q. Are there comparable characteristics given as to the so-called Red King, the accused fruit here in this trial, and which you have seen? Are those comparable characteristics listed under Red King, in your opinion, accurate?

A. As in comparison to LeGrand they are.

(Testimony of James William Taylor.)

Mr. Shepard: We ask that be introduced as an exhibit, your Honor.

The Court: It may be received. That is the chart you presented to Dr. Olmo?

Mr. Shepard: Yes, your Honor.

(The document heretofore marked for identification as Plaintiff's Exhibit 16, was received in evidence.)

The Court: All right. Did you take that chart to Dr. Olmo?

The Witness: No, I did not take it to Dr. Olmo.

The Court: Well, I thought——

Mr. Shepard: I mailed it to him, your Honor.

The Court: That's all right. You don't need additional foundation.

Mr. Griswold: Who made up the information? May we have that in the record?

Mr. Shepard: Yes, I would be quite happy.

Q. You and Mr. Anderson originally gave me that information on questions?

A. That is right.

The Court: All right. [481]

Q. (By Mr. Shepard): Now, are you familiar with the Gold King nectarines, have observed them and seen them?

A. I have observed samples of it.

Q. And have you observed it sufficiently to know the characteristics or description of it insofar as the characteristics we have on that chart, No. 16?

A. Yes, as far as the fruit characteristics.

(Testimony of James William Taylor.)

Q. Are you familiar with the characteristics was the question?

A. Yes, I am familiar with the characteristics.

Q. Let me ask you another question: What is the characteristic as to glands of the Gold King?

A. Reniform.

Q. What is the characteristic as to flowers, between small or large?

A. Large flower.

Q. What are the characteristics as to the stone, whether it is cling or free?

A. It's a clingstone.

Q. And what are the characteristics as to flesh color, is it yellow, white or red?

A. Yellow flesh.

Q. And do you know the characteristic of the kernel, whether it is bitter or sweet? [482]

A. The kernel is bitter.

Q. And does it have a ripening period different than those given on that chart?

A. It's certainly a ripening period different from the chart. I haven't been able to see it over a period of years, so I don't know.

Q. In your best opinion, does it have a different ripening period, as to LeGrand?

A. That's right.

Q. As to the LeGrand surface, is there any difference? A. No.

Q. As to the LeGrand color, is there any difference between Gold King and LeGrand?

(Testimony of James William Taylor.)

A. The coloring is—that is about the same.

Q. As to russeting?

A. Russeting is the same.

Q. That is a term that hasn't been used here before. Would you explain russeting?

A. Russeting is a term that refers to the surface of a fruit, to the roughness.

Q. Would you explain further what you mean by russeting, what aspect of the surface?

A. The smoothness of the surface.

Q. Is that from the pores in the fruit?

A. The russeting there was—there is a [483] pigmentation that also occurs that can be compared, or can be part of russeting.

Q. What does more russeting mean? When a fruit has more russet on it, what do you mean by that?

A. Well, may I refer to another fruit?

Q. Yes, go ahead.

A. In the pear, in the Bartlett pear versus Winter Nelis, there is a roughening surface there.

Q. A rough surface?

A. Well, it is rough and pigmentation also.

Q. As to size, is the Gold King, in your opinion, different in size than the LeGrand, in the general range?

A. In a general range, the range is the same.

Q. And as to the vigor of the Gold King tree, is the tree more vigorous than the LeGrand, or the same, or less?

A. It's the same as——

(Testimony of James William Taylor.)

Q. Did you have occasion to make some pit measurements of the Sun Grand samples and Red King samples?

A. Yes, I made some pit measurements.

Mr. Griswold: Counsel, you have been using the expression Gold King.

Mr. Shepard: Did I say Gold King? I was specifically referring in my last few questions as to the chart to Gold King which is the sport variety you mentioned.

Mr. Griswold: Oh, I thought maybe you were meaning to [484] refer to Red King.

Mr. Shepard: Let me say it again, on the chart are the characteristics of the LeGrand and the Red King. Then I had him through orally and give the characteristics of the Gold King.

The Court: All right.

Mr. Shepard: Now, I am getting back to the Red King, the accused fruit in question, Mr. Taylor.

A. The Red King.

Q. Now, as you have previously testified, you received random samples of the accused fruit from Mr. Anderson, after he brought them back about July 10th, and left them in your refrigerator?

A. That is right.

Q. And you kept those until some time in September, or thereafter, when they began to spoil? Is that correct?

A. That is right.

Q. Now, did you take recently measurements of a number of samples of the pits?

(Testimony of James William Taylor.)

A. Yes, I took a number of measurements of the pits.

Q. And have you prepared a chart of the measurements you made, with an average of those measurements?

A. I compiled the data as I took it on a chart.

Q. Now, how many pit samples did you take?

A. Fifty. [485]

Q. Do you have those here in court?

A. The pits are there.

Q. And you have one bag noted Sun Grand from the Anderson orchard?

A. That is right.

Q. What does that contain, how many pits?

A. The number I measured as 50 pits. I think they are all there. I wouldn't swear to it.

Q. Approximately 50 pits?

A. Approximately.

Q. Are these pits of a random run or lot or what?

A. They were a run, an orchard run.

Mr. Shepard I would like to have this first bag introduced. I don't think they will spoil, your Honor.

The Court: All right. They may be received as what?

The Clerk: 17.

The Court: All right.

(The bag of pits referred to was marked as Plaintiff's Exhibit 17, and was received in evidence.)

(Testimony of James William Taylor.)

Q. (By Mr. Shepard): The next bag is the pits from what samples?

A. These are the pits from the Red King, brought to me.

Q. Were those to your observation pits from different size fruits?

A. They were of different sizes of fruit, yes.

Q. And these contain approximately the 50 [486] you examined?

A. Yes, approximately.

Mr. Shepard: May we have this as the next exhibit for the plaintiff?

The Court: 18. These are the Red Kings?

Mr. Shepard: Yes.

(The bag of pits referred to was marked as Plaintiff's Exhibit No. 18, and was received in evidence.)

Q. (By Mr. Shepard): I show you a chart here—let the Judge see it—what is that chart labeled? The first one is a chart of Sun Grand pits?

A. The first one is of the measurements of the width, length, and thickness of the Sun Grand pits, 50 samples.

Q. From the first bag in evidence here, the random ones from Mr. Anderson's orchard?

A. Yes, that is right.

Q. And the—all right. I will stop there. This contains the measurements of each of the 50 pits?

A. Yes, each of the 50 pits, that is right.

Q. On both sides of the page?

(Testimony of James William Taylor.)

A. That is right.

Q. And at the bottom you have the word 'average'?

A. I have the average of those.

Q. That is the total divided by 50, I take it?

A. Yes, in millimeters. [487]

Q. Now, you have the width also, and the length, and the breadth?

A. Width, length, and thickness. I took those three measurements.

Mr. Shepard: May that be introduced in evidence?

The Court: Well, the Anderson measurements will be 19, and the accused pits will be 20. What did you use, calipers?

The Witness: Yes, calipers, Vernier's calipers, they are closest to the millimeter, however.

The Court: All right.

(The charts referred to were marked as Plaintiff's Exhibits 19 and 20, and were received in evidence.)

Q. (By Mr. Shepard): Now, did you express a ratio of the averages of the width and length?

A. The ratio was included.

Q. On the chart?

A. On the chart, right.

Q. And if you remember—otherwise we will give you back the charts—

A. I would like to have the charts back.

Q. —did that ratio indicate as between the

(Testimony of James William Taylor.)

Sun Grand and the Red King, whether one was proportionately longer, as between width and length, than the other?

A. Those samples are taken from a number of 50 kernels, [488] and I would like to read the number.

The Court: All right. Mr. Eiland will give them back. He wants them back.

The Witness: The data shows that the width of the Red King was 26.7; the length, average length now I am speaking of, and average width, was 35.9. And of the Sun Grand variety from that group, the average width was 26.2 and the average length was 33.8. This data as it is read shows that—points up that the Red King might be suspected to be longer in length than the Sun Grand. However, a sampling such as this is not enough to be significant in that respect in that within that sample there were large fruits and small fruits, and I had no measurements of the fruits previously from which those pits came, so I have no indication that there is a difference because the big fruits obviously have larger pits. The pit is an integral part of the fruit, and therefore, if you have a large fruit you have also a large pit, in relation to a small fruit.

Q. (By Mr. Shepard): Now, is a sample of 50, in the matter of degree, possibly more significant than a sample of ten?

A. Well, a sample of 50—a sample of ten is not representative at all. A sample of 50 is also not representative in the relation to a pit measurement

(Testimony of James William Taylor.)

your fruit—you have a variation in your fruits within one tree. To get [489] significance from that you would have to get an analysis of the fruit from one tree in relation to size. Then in trees within an orchard you have again variations from one tree to the next, and multiplying that again, you would have to run from a large number of orchards to get significant data to point out size. And furthermore, pit sizes, or pit size and pit characters unless extremely large, don't seem to have much significance; at least, I haven't been able to show significance of pits in identification.

Q. In your experience in plant identification, tree fruit identification, do you attach much significance to the pit sizes, unless they are greatly divergent?

A. If they are greatly divergent, of course, practically speaking one might, but in the normal run of our plant breeding work, I do not.

Q. Now, just for the sake of the record, from the 50 samples, does the Sun Grand appear to be thicker than the Red King, or vice versa, or the same, from the average of the 50 pits? What is the measurement?

A. Oh, I didn't read the measurements. Each was 20.5 it happened, in this case the actual measurements and the compilation was the same, but as you go down the list you have a variation from 19 to—well, I am not sure, from 19 to 24, so you have a range.

Q. And it just happens that the average comes

(Testimony of James William Taylor.)
out the— [490] average is the same on your study there.

A. Yes.

Mr. Shepherd: All right, that is all the questions I have. Cross-examine.

The Court: I think, we have been going since 1:30, we had better take a short recess.

(A short recess was taken.)

The Court: Proceed with the cross-examination.

Cross-Examination

By Mr. Houk:

Q. Mr. Taylor, I have here the Exhibits 19 and 20, these two charts.

A. Yes.

Q. These are made out in pencil, is that correct?

A. Yes.

Q. Are these the original figures you made from this test?

A. Let's see. I made a rough sheet, as I was writing them, and I copied it onto that.

Q. And when were these copied onto this?

A. Oh, just the last week.

Q. Pardon?

A. A week ago.

Q. A week ago?

A. About. [491]

Q. Now, this Plaintiff's Exhibit 16, which is a chart here—I will show you, you remember you testified to this?

(Testimony of James William Taylor.)

A. Yes.

Q. That is the parent LeGrand and the Red King sport, is that correct?

A. Yes.

Q. Are there any other characteristics besides those listed here that have any bearing upon the two types of fruit, whether they are similar or dissimilar?

A. There are a great number of characteristics, everything that goes to make up a fruit. Those are a few, those are the more obvious ones.

Q. What do you mean by more obvious?

A. Well, those are the ones that stand out.

Q. More noticeable?

A. More noticeable.

Q. But would have no more bearing than some that might not be so noticeable, is that correct?

A. Well, in comparing fruits, there are many things that go to make up a fruit.

Q. Many things besides these items listed here?

A. Yes.

Q. You were here yesterday when the slides were shown, is that correct?

A. Yes, I was here. [492]

Q. And you saw the slides?

A. They went rather fast, I had a little——

Q. Well, did you see them again this morning?

A. Some of them.

Q. Did you see the pit slides this morning?

A. Yes.

Q. And you saw them yesterday?

(Testimony of James William Taylor.)

A. I saw some of the pit slides, I don't know if I saw them all.

Q. You are referring to this morning?

A. Yes.

Q. Yes. Now, when you saw those pit slides, did you recognize them as to the type of pit they were?

A. I would recognize them as a general type of pit of—

Q. Well—excuse me, go ahead.

A. —of the type of pit that we think of as being in the Sun Grand, LeGrand, or that group.

Q. Each one of those slides was labeled with the name. As you saw those, did you have any disagreement with them as to the type of pits they were, whether they were Sun Grand or Red King?

A. They all looked the same to me as far as classification goes.

Q. Then you don't know which was which? Is that correct?

A. If they were given to me without the label for them, [493] I wouldn't know them.

Q. You wouldn't know. In measuring these pits we have here—maybe I better give you this before I ask you a question—would you tell me what the average was on the width for the—let's take the Gold King and the Sun Grand?

A. I don't have any measurements for the Gold King.

Q. All right, let's take Red King.

A. 26.7 for the width.

(Testimony of James William Taylor.)

Q. What was the width on the Sun Grand?

A. 26.2.

Q. Then the Red King would be wider?

A. No, I wouldn't say that, in relation to—comparing the two varieties.

Q. I am just referring, Mr. Taylor, to these figures.

The Court: Well, that is a question of mathematics, and argument.

Mr. Houk: Very well.

Q. What is the width on the—withdraw that question. What was your figure on the length?

A. The figures on the length, the Sun Grand 33.8, and for the Red King 35.9.

Q. Thank you. Did you make any measurements as to the width and length in inches?

A. Well, an inch is 2.45 centimeters.

Q. Do you have any figures on the width, the range, in [494] inches available on either one of these?

A. No, I don't, but you can divide by 2.54 to get the inches. I believe that is the figure, I would have to be sure.

The Court: Well, it doesn't matter. If anyone wants to have it done, let them do it.

Q. (By Mr. Houk): Now, Mr. Taylor, did you make any other test measurements or checks on any of these nectarines that you haven't told us about?

A. That I haven't told you about?

Q. Yes.

(Testimony of James William Taylor.)

A. What do you mean, I haven't told you about?

Q. Well, are there any other tests you made that you haven't testified to here?

A. In relationship to measurements?

Q. In relationship to these two nectarines, Sun Grand and the Red King?

A. Are you referring to this, or my direct, your cross-examination and my direct testimony?

Q. Well, I will ask you this—withdraw the question since you ask that question, and I will ask you this question: Do you remember yesterday when I cross-examined you, I asked you if you have made any other tests?

A. Yes, when we were referring to the 1957 visit you asked me if I had made any other measurements.

Q. I wasn't referring in my question to any visit. I asked if you made any other tests regarding the differences between these two nectarines?

Mr. Shepard: I object to that as immaterial what the question was.

The Court: I don't think it is material, what he told you yesterday. He told you he doesn't remember, it is lack of memory as to an immaterial matter and that is all there is to it. Suppose he told you he had forgotten about it and he tells you now he has made it, so what.

Mr. Houk: My memory of his testimony yesterday was he said he hadn't made any other tests.

The Court: Well, he was wrong and he produces the result of the test. Suppose he had forgotten,

(Testimony of James William Taylor.)

there is no need to conceal it. Suppose he deliberately did it in order to produce this on cross-examination; it wouldn't mean anything. I am not a jury, you needn't argue and wave your hands and I wouldn't let you do it if there were a jury. All this talk about concealing evidence, most of it is bunk. A man has the right to have his case tried the way he wants to try it, and if the witness wants to keep something for later on, if he wanted to he had a perfect right to do that. As a matter of fact, it would have been improper for him to put this in because it did not become material until you produced exact measurements, so therefore he let you produce your measurements [496] and then he produced his, which is good tactics. So let's not waste time, let's end this, the testimony.

Mr. Houk: Very well, your Honor. I have one more question I would like to ask and that is:

Q. Is it true—I want to be clear on one answer you made. Do you consider this test that you made from the number of pits you have as a definite conclusive test?

A. I made no indication I made a conclusive test.

The Court: No, he said it isn't a good test, and neither is yours of ten.

Mr. Houk: That is all, your Honor .

Mr. Shepard: No questions.

The Court: All right, step down.

Mr. Shepard: Call Mr. Howard Stafford. Mr. Stafford has been sworn previously.

HOWARD STAFFORD

called by plaintiff as a witness in rebuttal, having been previously duly sworn, was examined and testified as follows:

Direct Examination

By Mr. Shepard:

Q. Mr. Stafford, you previously mentioned that you went to the Joseph Hunter orchard in the year 1954, sometime during the summer, and examined a tree or trees in that orchard, one of which was in your opinion a Sun Grand?

A. That is right. [497]

Q. Now, on that occasion you had other people with you; I think you mentioned Mr. Anderson and Mr. Kim?

A. I beg your pardon; I can't remember that particular examination.

The Court: Speak louder.

Q. (By Mr. Shepard): In 1954 when you went to the Hunter orchard——

A. I did go to the Hunter orchard.

Q. ——you remember an occasion when Mr. Anderson and Mr. Kim were with you?

A. That was right.

Q. On that occasion did you see Mr. Joseph Hunter, who has been in court here?

A. I did.

Q. And did you hear a conversation between Mr. Hunter and the members of your group, Anderson, Kim and yourself? A. I did.

(Testimony of Howard Stafford.)

Q. Will you repeat that conversation, as near as you can remember, who said what and so forth?

A. Well, as I remember the conversation, Mr. Hunter was informed——

Q. By whom?

A. By Mr. Kim that—or Mr. Anderson, I could not be certain as to the person who made the statement, but the statement was made that it was a Sun Grand nectarine. [498]

Q. And did Mr. Hunter reply to that statement, or was there some other statement made by either of the parties?

A. Mr. Hunter said that he did not know what the nectarine was.

Q. Just a moment. Go ahead.

A. He did not know what the variety of nectarine was, but how it happened to be there, was that Mr. Roy Riesner had told him that he had discovered a new nectarine and that he would like to work over a couple of trees, and that he had no objection to Mr. Riesner doing so.

Q. This was the statement of Mr. Hunter?

A. That is right.

Q. Now, then, did you have occasion to—strike that. Was Mr. Hunter present sometime during the visit at this tree that you described as Sun Grand?

A. Definitely, he approached us as we were at the tree, and that is where the conversation took place.

Q. And did you look at the tree on which you

(Testimony of Howard Stafford.)

say—well, I am not sure what you testified to. Did you see Sun Grand fruit on the tree?

A. I seen Sun Grand fruit on one tree.

Q. And did you look at the tree, that is the trunk and the limbs of that tree? A. I did.

Q. Now, I will go back for just a moment. Mr. Stafford, [499] you have been in the agricultural business starting when? A. In 1911.

Q. And just briefly sketch your history?

A. I left business college in the fall of 1911, after having something less than a year and a half of high school, and went to work in the nursery business, and have been identified with that business each year during the nursery season especially, with the exception of the year 1920. During the summer months I have followed various other lines of work, such as supervising packing houses, for some 14 years a standardization inspector for the County of Fresno, some four years as state federal inspector.

Q. Now, has part of that experience had to do with grafting and budding?

A. It has, yes, sir.

Q. Now then, looking at that tree where you and Mr. Hunter and Mr. Anderson and Mr. Kim were standing, on which you saw the Sun Grand fruit, did you at that time in 1954 make any observation of anything unusual about that tree?

A. The tree apparently had been grafted.

Q. And what led you to that observation or opinion?

(Testimony of Howard Stafford.)

A. Well, in a grafted tree, or a top worked tree—in the case of a grafted tree you generally find the residue of wax, for one thing. Also the tree has to be topped in order to insert the graft, in this type of grafting; there are other [500] types of grafting, but in this particular type of grafting the tree—the limb is cut off and the graft inserted, and it hadn't completely overgrown.

Q. All right. Now, in the course of years do the marks to which you refer become overgrown or hard to distinguish? A. It is generally so, yes.

Q. And at the present time, with reference to the tree you saw in 1954, that is this year 1958, would you be able to with certainty determine whether there had been a graft work on that tree?

A. I would not.

Mr. Shepard: That is all the questions I have.

The Court: All right. Was Mr. Hunter present at all times while you were making these observations?

The Witness: No, he was not, your Honor.

The Court: Was he present at the time when you discussed evidence which led you to the opinion you state now that the tree was grafted?

The Witness: No, he was not.

The Court: At a subsequent time, in discussing the matter, did you call his attention to the fact you now state?

The Witness: Well, your Honor, he was across the field, he was picking his LeGrand nectarines at

(Testimony of Howard Stafford.)

the time, and he came up to the two trees in question, came up, and at that [501] time he was informed it was our Sun Grand nectarine, as I have so testified, and he of his own initiative admitted the tree had been top worked.

The Court: All right.

Cross-Examination

By Mr. Griswold:

Q. Your testimony is that he told you Mr. Riesner had top worked the tree?

A. He did not say that Mr. Riesner did. My testimony is that he said that Mr. Riesner had come to him and said that he had a new variety he had found and would like to top work, and he told him it would be all right, leading us to the assumption that Mr. Riesner had done the work. I don't know that he had actually.

Q. That is the only time that you had ever been to the Hunter ranch? A. No, sir.

Q. Had you been there before on the Hunter orchard?

A. I was in the Hunter orchard before.

Q. Had you met Mr. Hunter before?

A. I had.

Q. I think you testified you sold this orchard to him?

A. Well, I was manager at the nursery at the time and the orchard was sold to him, whether I was the individual that actually sold him the trees

(Testimony of Howard Stafford.)

I do not know, but I know the [502] trees were delivered to him.

Q. Following this visit in 1954, when did you again return to the Hunter orchard?

A. I returned to the Hunter orchard, as I remember, in company with yourself, I believe, the other attorney, Mr. Vaughn Girozian, Mr. Kim, our attorney Mr. Shepard, myself, there was quite a group, it is a matter of record who was present.

The Court: All right.

Q. (By Mr. Griswold): Which tree were you looking at in 1954?

A. In 1954, we were looking at two trees.

Q. Where were they located?

A. Those trees were located, to the best of my knowledge, were located in the northeast corner of the original planting of LeGrand nectarines.

Q. And which, or did both show evidence of grafting, or just one?

A. Both trees at that time, in my opinion, showed evidence of top working.

Q. By "top working" what do you mean?

A. Top working is either done by budding or by grafting. In this case it appeared to be grafting.

Q. Both trees showed that?

A. As I seen it, yes, sir. [503]

Q. Where was the other tree that you observed?

A. As I remember, that tree was in the same row, running east and west, but west of the tree on which the fruit was found.

(Testimony of Howard Stafford.)

Q. At how many points did you observe this evidence of top grafting?

A. I observed, as I remember, in the one tree, the tree that had the fruit on it. I did not pay too much attention to the other tree because it had no fruit on it. I assumed that it was a Sun Grand from the fact it had the same glands and Mr. Hunter made the statement that he did, I wasn't questioning his statement. But two limbs I believe, as I remember it, were top worked, and there was evidence of another limb being sawed off; the position of them I could not tell you.

Q. You made no sketch? A. No, sir.

Q. Did you make any notes of the trees?

A. No, sir.

Q. Did you make any photographs of this tree?

A. No, sir.

Q. Did anyone else in your presence do so?

A. No, sir.

The Court: On your subsequent visits did you ever see this second tree? That seems to have disappeared, vanished? [504]

The Witness: That is quite true, your Honor.

The Court: You have never seen it?

The Witness: The fact of the matter is the tree when we went with the attorneys apparently was not the same tree.

The Court: Was there an indication it had been dug up or something?

The Witness: No, there was a tree there.

(Testimony of Howard Stafford.)

The Court: But it wasn't the tree you had seen there?

The Witness: That's right. I can't account for that.

The Court: The trees are spaced uniformly?

The Witness: That's right.

The Court: You found a tree, but it wasn't the tree you saw?

The Witness: To the best of my knowledge it wasn't the same tree.

The Court: All right.

Q. (By Mr. Griswold): The tree that was there was about the same size as the rest of the trees in the orchard?

A. Will you repeat the question, please?

Q. The trees were about the same size, were they not?

A. What visit are you speaking of now?

Q. The second visit?

A. The second visit, the trees were approximately the same size, yes. [505]

Q. Now, was there any particular reason why you didn't pay any attention to this tree, the one you can't now locate? Why did you pass over it?

A. It had no fruit on it, and it has been testified many times you cannot make a positive identification without fruit.

Q. Let's assume that a graft had been made, how many years, or what period of time does it take after the graft is inserted before that graft will produce fruit?

(Testimony of Howard Stafford.)

A. Generally speaking, you will lose the first year's crop. I have seen fruit on a graft put in the first year, it is possible that the scion will have fruit, it will produce fruit. Generally it will fall off, though on some it does not. So you can have fruit on a tree, on a graft, grafted in the winter months, you can have fruit the following season, but generally speaking you do not get it until the second year.

Q. How old was this apparent graft that you described that you say you saw evidence of?

A. I have no way of knowing how old it was.

Q. Well, from your experience, you have been in the tree fruit business, how old did it seem to you?

A. I would say that it was two years from graft, that would be as near as I could make a guess, and it is a guess. Some grafts will take off and grow readily, others will not. You can walk up to many grafts that are five and six years [506] old you think should be only one or two.

Q. From the trunk—how big around was this trunk you saw in 1954?

A. Oh, that trunk was probably, the trunk of the tree was probably three and a half to four inches.

Q. And how far from the ground did the trunk fork into the various limbs of the tree?

A. I can't definitely tell you; it is a general practice it is about knee high, about 18 inches, and I think was about so in this case.

Q. Based on your general knowledge then you think it was about 18 inches?

(Testimony of Howard Stafford.)

A. Where it was forked in the original tree.

Q. But you have no independent knowledge?

A. Of this one? I did not measure it, no, sir.

Q. How many divisions were there in that tree, the one that had the fruit on it?

A. As I remember, there were three distinct divisions.

Q. Where were they located?

A. I told you previously I could not state the locations.

Q. Were they three of equal size?

A. No, sir.

Q. Well, describe that to us.

A. Well, the grafted limbs of necessity would have to be at the point—the place where they are grafted, they [507] would be the same size, but above that they would be somewhat smaller.

Q. You say they would be. I am asking you what their condition was when you observed them.

A. Well, the two grafted limbs were smaller than the other limb. The other one, as I remember it, was sawed off. There was nothing on it.

Q. At what point?

A. At a point something like 10 or 12 inches from the crotch of the tree.

Q. Now, directing your attention to the disputed limb or limbs, am I not correct that there was fruit growth from the trunk right on up?

A. In the disputed limb?

Q. Yes.

A. Not at that time, no, sir.

(Testimony of Howard Stafford.)

Q. Well, describe again just what you saw?

The Court: Well, I will sustain the objection. We have gone over this several times. There is no use to have a man repeat seven times what he has already described in the hope you will get a contradiction. Anybody could do that, even you, if you try to repeat the same question and answer. There ought to be a limit to this type of examination.

Q. (By Mr. Griswold): Do you know of your knowledge that a Sun Grand graft [508] was placed on this Hunter tree?

A. Only what was told to me by Mr. Hunter. I do not know who placed it there, or if it was placed there.

Q. I believe you testified you made no sale of the Sun Grand to Mr. Hunter or Mr. Hagler?

A. That is right, that is Mr. C. L. Hagler.

Q. You did nothing after you observed this Sun Grand graft? A. That is right.

Mr. Griswold: No further questions.

The Court: Any redirect.

Redirect Examination

By Mr. Shepard:

Q. The last question, I don't know what counsel meant, your employer wrote a letter to Mr. Hunter in due course?

A. Yes. He asked about what I did. I did not do it. My employer did write a letter.

Mr. Shepard: No questions.

The Court: All right, step down.

Mr. Shepard: Mr. Anderson.

FREDERIC W. ANDERSON

called by plaintiff as a witness in rebuttal, having been previously duly sworn, was examined and testified as follows:

The Court: Mr. Anderson was on the stand for a long while, and I want his testimony confined strictly to rebuttal. [509]

Direct Examination

By Mr. Savage:

Q. Mr. Anderson, do you have the pack-out statement there? A. I do.

Mr. Savage: I would like, without further comment to offer these government reports, and have them marked, this gives the ripening dates and the pack-outs, and so forth.

The Court: May be received.

The Clerk: That will be 21.

(The document referred to was marked as Plaintiff's Exhibit 21, and was received in evidence.)

Q. (By Mr. Savage): Mr. Anderson, you were with Mr. Howard Stafford and Mr. Kim, when you went down to this so-called parent tree, or mother tree, in 1954? A. I was.

Q. And when did you—as I understand it, you were over in the Hunter orchard? A. Yes.

(Testimony of Frederic W. Anderson.)

Q. And did Mr. Hunter—did you see Mr. Hunter over there? A. Yes.

Q. And where did he come from?

A. Well, he was apparently supervising a crew picking LeGrand nectarines, and when we approached he came out and [510] met the group.

Q. And then did you proceed to this mother tree, with Mr. Hunter?

A. Yes, after a few minutes, just a short conversation.

Q. Will you give that conversation in the presence of Mr. Hunter?

A. I don't remember exactly how it went, but I remember the gist of it, that we told him that we had found on our way over two Sun Grand trees, and he said, well—oh, he said something about there being a peach limb, and I said that I hadn't seen any peach limb. He said, "Well, I'll take you over and show it to you—take you over and show the limb to you."

Q. Did he take you over there? A. Yes.

Q. What was the other conversation?

A. Well, when he got there, he said—he looked at the tree and he said, well, "something has happened to the limb" and he walked around the tree, and he says "well, it has been sawed off at this point recently, but I didn't know about."

Q. Was anything further said in the conversation as to whether Mr. Hunter had known Mr. Riesner?

A. Yes. We asked him, or I asked him—most

(Testimony of Frederic W. Anderson.)

of the conversation was with me actually, and I said, "How did you [511] get this tree, it's a Sun Grand which I orginated, and I just know it from being familiar with it?" And he said, "Well, I don't know what it is, Mr. Riesner came over and said he had a wonderful nectarine and asked my permission to bud a couple of trees, and I said that I had a couple of early ripening peach trees that I didn't care about and that he could bud them in those.

Q. Did he say whether or not Mr. Riesner had budded them in?

A. He didn't say, I don't think. It is hard to remember that far back. I don't recall that he said he had done it, but he had given him permission to do it, and I assumed that he had done it.

Q. Now, did you observe whether or not—I direct my question to the mother tree, whether or not the mother tree had been top worked or grafted or budded?

A. Well, it appeared to me as if it had been grafted. We had examined it before we got to Mr. Hunter, and then he brought us back there, and I established superficially, but after he told me that it had been grafted I paid no further attention. I think the word he used was top worked, but it might have been grafted.

Q. Was there any visual signs on that tree of grafting or top working?

A. Well, it seemed to me obvious at that time that it [512] had been grafted.

(Testimony of Frederic W. Anderson.)

Q. Were there visible signs that you could see that would indicate that?

A. My memory is vague now, but—just what those visible signs were, but it just looked to me as a grafted tree.

Q. What, aside from this so-called Sun Grand—was there another fruit on that tree?

A. No, there was no fruit—beg your pardon. There was no other fruit than Sun Grand on it.

Q. Were there any other branches, or any other type of fruit you could identify?

A. Aside from this one Mr. Hunter told us was sawed off I saw none.

Q. Now, coming to the point of mutation or sports, in your long and varied experience in propagation, and so forth, have you ever known of any sport or mutation where the form of glands, either reniform or globose or no glands, were transferred?

A. No, I have not. When it comes to fundamental characters in plant life that are vital to the life of the tree, such as leaves, they rarely happen. I know in other forms of plant life where mutations have occurred on leaves; on peach tree, from reniform to any other kind I have never seen or read of one.

Q. In your opinion, is it possible that a sport from [513] this tree, assuming it to be a peach, if you want to, there would be a change of glands from reniform to globose?

A. Well, when you say “possible,” I suppose

(Testimony of Frederic W. Anderson.)

theoretically it is possible. I have never seen one or read of one, is all I can say.

Q. And what is the probability that a sport from a LeGrand tree—LeGrand tree has what kind of glands? A. Reniform glands.

Q. If there was a sport from the LeGrand tree, did you ever hear of such a sport changing the gland texture of the leaves? A. No, I have not.

Q. In any of your reading, have you ever heard of such a thing?

A. If so I don't recall it. I don't remember ever reading of such a change in peach or nectarine leaves.

Q. Now, the LeGrand nectarine is a clingstone, isn't it? A. That's correct.

Q. Have you ever known of any sport or mutation in which a clingstone was changed by such sport or mutation to a freestone?

A. I never have, and I wouldn't accept it because a clingstone is recessive to freestone and it is extremely rare in any kind of plant life that there is a mutation from a recessive to a dominant character. It is known, there have [514] been a few in other forms of plant life, but I have never known it in peach trees from clingstone to freestone, peaches or nectarine trees, from clingstone to freestone.

Q. As to the many similar characteristics which you have testified to—not similar, but identical characteristics you have testified to heretofore, between the Red King and the Sun Grand, in your

(Testimony of Frederic W. Anderson.)

opinion, is it likely that a mutation, as claimed by the defendant in his patent, from the LeGrand that those characteristics will be transferred by a mutation? We will talk about the kernels and the pits, for example, between bitter and sweet?

A. No, bud sports or bud mutations rarely occur in anything fundamental that affects the life of the plant; if it does, the plant obviously doesn't grow. On minor characters, oh, color of fruit, size of fruit, and minor things it can happen, and continue to live, but these—like color and minor differences in shape can—in the fruit can occur with much greater frequency, at least, than they do in the fundamental characters.

Q. You in your direct testimony talked about qualitative and the quantitative. Have you ever known of any transmission of those qualitative characteristics of a nectarine being transferred by mutation?

A. I would have to think what they are. Oh, yes, let's see. Yes, there have been qualitative characters that have [515] mutated, qualitative—these are qualitative characters as far as identification is concerned. They are not necessarily important characters to the peach tree. They are characters that are very important to the man that is trying to identify them, but they may not be important from the tree's viewpoint, I mean to continue the life of a tree.

Q. Have you ever known a combination of all those characters being transmitted by sport?

(Testimony of Frederic W. Anderson.)

A. Well, at the moment I don't think of any, but I would expect that—no, I don't know, I would expect probably that it would happen, the petals of a flower wouldn't make too much difference to the life of the tree, if petals should change color slightly or change size slightly. I don't know of any, but I think it might be possible.

Q. Mr. Anderson, I forgot to ask you, you have a compilation of these reports here.

A. Oh, yes. I made a summary of them, just to cover the whole thing. The summary only covers the three varieties, LeGrand, Sun Grand and Red King.

Q. You made that——

A. It's from those charts and covers each day.

Q. The '58 season? A. The '58 season.

Mr. Savage: You want to see this?

Mr. Griswold: Yes. [516]

Q. (By Mr. Savage): While they are looking at that, could you tell us what is the peak of the ripening of Sun Grand and Red King?

A. Yes, I made a summary, taking the range of the peak, and heavy packing period.

Q. And what is that?

A. Well, it won't take long to read it, the range for Sun Grand—now, this range is the first picking report, the first packing report, rather, to the last packing report, and that range for Sun Grand began July 5th and finished August 6th. The range for Red King began July 5th, finished July 24th. The range for LeGrand started July 11th from Kern County,

(Testimony of Frederic W. Anderson.)

and August 17th was the final figure, probably from fairly far north. No, they gave them by counties, I wouldn't be certain where they were from. The peak the harvest, that is the heaviest harvesting period for each variety, for Sun Grand was July 5th to 10th, for Red King July 5th to 9th, for LeGrand July 25 to 28th. The heaviest packing period in the case of Sun Grand, that was over 10,000 packages daily, was from July 5th to July 16th, for Red King July 5th to 13th, for LeGrand from July 21st to 31st. Then I made a further one from private reports, but not from this.

Q. That is all right. Give it to us.

A. From my own orchard, I have the figures here, Merced County, which is 50 miles to the north, Sun Grand July 7th to 18th; Tagus orchard, Tulare County, which is close to Mr. Hagler's orchard, Sun Grand July 7th to 14th; Kim Brothers orchard, Fresno County, Sun Grand, June 29th to July 22nd; the Hagler orchard, Tulare County with Red Kings, July 2nd to 18th.

Mr. Savage: We would like to have this in for argument; it is simple.

The Court: It may be received.

Mr. Savage: We would like to put in this one exhibit too.

The Court: It may be received.

The Clerk: 22 and 23.

(The documents referred to were marked as Plaintiff's Exhibits 22 and 23, and were received in evidence.)

(Testimony of Frederic W. Anderson.)

Mr. Savage: You may cross-examine.

Cross-Examination

By Mr. Houk:

Q. Mr. Anderson, this last exhibit just put in, that you have just been talking about, is that based upon the packing records?

A. Yes, the last three that I read from private records were my own, and the Tagus ranch were not from those. They don't give that, but all the preceding ones were from those reports.

Q. But they are the dates the fruit was packed?

A. Yes, that is correct. [518]

Q. Now, regarding the tree in question on the Hunter place, when you first went there how many trees did you see that you felt were possibly Sun Grand trees in your opinion?

A. In my opinion there were two trees, although there was only fruit on one.

Q. All right. Now, where were they located as far as you know?

A. Well, my idea of location is different from this so-called accused tree, but I am not sure of that. It's a long time, but as I remember, we went across there. I didn't remember being out on the edge of the orchard.

Q. Where did you remember it being?

A. Well, I don't know just how far in, but I don't think I was to the edge of the orchard at that time, but I don't know just where it was. It was not very far, maybe six or eight or ten trees, something

(Testimony of Frederic W. Anderson.)

like that, but it is vague in my mind now. All I know is we stopped by Mr. Hunter's house, asked for him there and didn't find him, and then went out toward where they were picking, and Mr. Hunter—and we found these two trees that were obviously different from LeGrand, and I said, "Well, these look like Sun Grand," and then we looked at the fruit, and finally found some down low—low down, and I told Mr. Kim and Mr. Stafford that they were——

Mr. Shepard: He asked where the trees [519] were.

The Witness: O.K.

Q. (By Mr. Houk): Then these two trees that you found, you found one or two trees?

A. One tree.

Q. And where was the fruit?

A. It was, oh, down low in the shade underneath.

Q. Was there very much fruit?

A. No, just—no, a very limited number. As of now I would say there were half a dozen fruits.

Q. They were late fruit?

A. They apparently had been left in picking as too small or too green and had grown considerably. You see, they were picking LeGrand, which normally ripens two to three weeks later.

Q. All right. Now, you were back this summer to this—withdraw that question. After you saw the tree there originally, did you go back—when did you first go back again?

(Testimony of Frederic W. Anderson.)

A. This past summer with Mr. Savage to get samples of the fruit, and Mr. Hagler and you showed me.

Q. You saw this particular tree at that time?

A. This particular accused tree, yes.

Q. Yes. Was it in the same location you saw the trees the first time? [520]

A. Well, as I told you, I didn't think so, but I could have been mistaken.

Q. I see.

A. But I don't think I was mistaken.

Q. All right, did you see the second tree this time? A. No.

Q. Mr. Anderson, isn't it true that these different fruit varieties of nectarines are hard at times to tell apart?

A. Yes, there are difficulties involved. I am quite sure that I can tell my own—the varieties that I have originated, and I am quite sure that I can tell all standard varieties apart, if I see all the characteristics. I have to see all the way through—I have to see the leaf type, I have to see the flower type, and I have to see the fruit, fruit of course being the most important single thing.

Mr. Houk: I think that is all, your Honor.

The Court: Any redirect?

Mr. Shepard: No questions.

The Court: All right, call your next witness.

Mr. Shepard: We have no further witnesses in rebuttal.

The Court: Any surrebuttal?

Mr. Griswold: Yes, your Honor. We will call Mr. Riesner, Senior. [521]

ROY MILTON RIESNER, SR.

called by defendant as a witness in surrebuttal, having been first duly sworn, was examined and testified as follows:

The Clerk: Just state your full name, please.

The Witness: Roy Milton Riesner, Sr.

Direct Examination

By Mr. Griswold:

Q. Your address, Mr. Riesner?

A. Visalia, 720 Greenacre Drive.

Q. Your occupation? A. Nurseryman.

Q. How many years?

A. Approximately 50 years.

Q. All in Tulare County?

A. Well, practically all, I would say with the exception of maybe two or three years.

Q. Do you know Mr. Hunter that testified here today? A. I do.

Q. Do you know where he lives? A. I do.

Q. When did you first meet Mr. Hunter?

A. Mr. Hunter, I think some time late in 1955, must have been in November or December.

Q. And do you remember the occasion that you met Mr. Hunter? [522]

A. My son had been negotiating with Mr. Hunter for some land to plant nursery on, and then

(Testimony of Roy Milton Riesner, Sr.)

he called me to talk to Mr. Hunter, and he agreed to give us some ground for planting nursery stock.

Q. And you have nursery land on his property?

A. We still have nursery land on his property.

Q. When did you first see the fruit that has been described as Red King? A. 1954.

Q. And where was that? A. Where was it?

Q. Where?

A. This was on the Hunter ranch.

Q. And will you describe the occasion that you saw that fruit?

A. Yes. I had a call from Mr. Hagler saying that he had discovered a new nectarine, or strange to him, that he had never seen before, and he wanted me to come and see it, and Mr. Vaughn Girozian was there at the time.

Q. You testified you received the call.

A. So they wanted me to come out and I wasn't able to go out and my son went out, and I went out either one or two days later.

Q. And where did you go?

A. Well, they took me to the tree in the orchard and [523] showed it to me.

Q. "They," who do you mean?

A. That was, I think Mr. Hagler was there at that time.

Q. And you say "that tree," you mean the tree——

A. The tree that had the different kind of fruit on it, nectarine fruit.

(Testimony of Roy Milton Riesner, Sr.)

Q. That was on Mr. Hunter's land?

A. Mr. Hunter's land.

Q. Were you ever cognizant, or did you know of that tree prior to that time?

A. No, sir, I hadn't been on Mr. Hunter's place, I mean only since 1955, late in the year.

Q. Have you grafted very many trees?

A. Well, not myself, but we have had trees grafted and I have seen trees grafted.

Q. Under your supervision?

A. Well, some under my supervision, and some not.

Q. When you saw this tree on the Hunter property in 1954, will you describe what you saw in relation to that tree?

A. Well, he took me back in the orchard there, in the LeGrand orchard, and he showed me the tree. I think this is Mr. Hagler, not Mr. Hunter. Mr. Hagler took me that there, you understand. And I looked at the fruit and it was different fruit, and he asked me what I thought of it, and I said——

Q. You can't testify to what he told you. [524]

A. O.K.

Q. You looked at this tree? A. Yes.

Q. Based on your knowledge and experience, did you come to any conclusion as to the source of that new fruit that you saw?

A. Well, I judged it to be a mutation of some kind.

The Court: You didn't graft that limb on, or

(Testimony of Roy Milton Riesner, Sr.)

bud, or anything like that, so as to produce that offshoot?

The Witness: Did I graft it on?

The Court: Yes.

The Witness: No, sir.

The Court: All right.

Q. (By Mr. Griswold): At that time when you went on the Hunter property you did not meet Mr. Hunter in 1954?

A. Not at that time. The first time I was at Mr. Hunter's place was in 1955.

Mr. Griswold: No further questions.

The Court: Let me ask, I don't think it is fair to the witness, to leave any question, not ask categorical questions. Did you ever ask Mr. Hunter or Mr. Hagler for permission to experiment with a tree by grafting a new kind of nectarine?

The Witness: No, these belonged to Mr. Hunter.

The Court: Mr. Hunter? [525]

The Witness: No, I never did. You know, I didn't know Mr. Hunter in 1954.

The Court: Did anybody connected with your organization——

The Witness: No.

The Court: ——or did you send any of your men out at any time to plant?

The Witness: No.

The Court: When you saw this tree you formed the conclusion it wasn't a grafted tree but what you would call a——

(Testimony of Roy Milton Riesner, Sr.)

The Witness: It looked to me like a mutation.

The Court: All right.

Cross-Examination

By Mr. Shepard:

Q. Mr. Riesner, have you had occasion since Mr. Hagler patented, or even before he patented this Red King—have you had occasion in your nursery sales to sell any of these Red Kings?

A. No, sir.

Q. Do you have any plans to sell them?

A. No, sir.

Q. Do you sell the Gold Kings? A. Yes.

Q. And that is a nectarine that Mr. Hagler patented? A. That is right.

Q. As far as you know, you are the only one that sells [526] that Gold King?

A. As far as I know.

Q. Do you have an exclusive license?

A. I do.

Mr. Shepard: I think that is all.

Mr. Griswold: No further questions.

The Court: All right.

Mr. Griswold: Mr. Riesner, Jr.

ROBERT MILTON RIESNER, JR.

a witness for defendant in surrebuttal, having been first duly sworn, was examined and testified as follows:

The Clerk: Just state your full name, please.

The Witness: Robert Milton Riesner, Jr.

(Testimony of Robert Milton Riesner, Jr.)

Direct Examination

By Mr. Griswold:

Q. You are associated with your father?

A. Yes, I am.

Q. How many Riesners are there in Visalia, besides you and your father?

A. Only the two families, that is——

Q. Just you and your father?

A. That is correct.

Q. And of course you are in the nursery business with him? A. I am. [527]

Q. When did you first meet Mr. Hunter?

A. I met Mr. Hunter in 1955, around October, sometime in October.

Q. Where? A. On his ranch.

Q. Had you heard of a discovery of a new variety of nectarine on his ranch prior to that time?

A. Yes, I had.

Q. Had you been to the tree? A. Yes.

Q. When? A. In 1954.

Q. Will you relate the circumstances, how you got to that tree? A. I went with Mr. Hagler.

Q. The purpose of the visit?

A. To—Mr. Hagler asked me to look at the fruit, to see what it looked like.

Q. Had you ever seen that tree before?

A. No, I hadn't.

The Court: All right. Tell what you saw.

The Witness: Well, I saw a tree which had two limbs, two main limbs, as I remember, one limb, the

(Testimony of Robert Milton Riesner, Jr.)

one we call the mutation, looked like a mutation to me, was forked and it had fruit on it. There was another limb which also had fruit [528] on it, which appeared to be LeGrand to me.

Q. (By Mr. Griswold): At that time had you ever touched that tree in any way, shape or form?

A. No.

Q. You didn't know the tree was there?

A. No.

The Court: Had you been there before? Had you grafted that tree?

The Witness: No, sir.

The Court: Had anyone else, your father, put a graft on that tree?

The Witness: No, sir.

Q. (By Mr. Griswold): Do you know of anybody that grafted that tree? A. I do not.

The Court: Well, he wouldn't know unless connected with his organization. Where did you acquire your knowledge, by practice?

The Witness: Just by practice, yes.

The Court: You didn't take an agricultural course?

The Witness: I did not.

The Court: All right.

Q. (By Mr. Griswold): This tree that you saw, describe it in relation to [529] the other trees in the orchard?

A. Well, it appeared to be the same size, or about the same size, I didn't notice any difference in size, it looked about ten or twelve feet tall.

(Testimony of Robert Milton Riesner, Jr.)

The Court: There is some dispute whether it was on the edge of the orchard or away from it.

The Witness: Well, it was on the outside row, the easternmost row.

The Court: Would you say it was the last row?

The Witness: The last row, yes, the outside row on the eastern side.

The Court: What is there around the trees?

The Witness: Well, on the east side there is a fence line and an alfalfa field and pasture on the other side.

The Court: I see. All right.

Cross-Examination

By Mr. Shepard:

Q. In 1954, Mr. Riesner, your nursery had nursery growing plots on the Hagler ranch?

A. That is correct.

Q. How big an acreage?

A. Oh, approximately ten acres, ten, fifteen acres. I have forgotten.

Q. The Hagler ranch is more or less directly adjacent. Across the street from the Hunter [530] ranch?

A. Yes.

Q. And that nursery plot, was that known to the community to be the Riesner nursery plot, and trucks coming back and forth there, and so forth?

A. I suppose there. There was no name there.

Mr. Shepard: That is all.

The Court: What kind of arrangement do you

(Testimony of Robert Milton Riesner, Jr.)

make? Do you lease part of the ranch and then you plant your own trees?

The Witness: Yes.

The Court: To grow your own nursery?

The Witness: Yes, we rent the land.

The Court: You rent the land. On what basis do you rent?

The Witness: Well, it depends, sometimes it is a cash rent, sometimes it is in exchange for trees.

The Court: Well, in that particular case what kind of an arrangement did you have?

The Witness: In this particular case it was exchange for trees.

The Court: Exchange for trees. And then you or your men do all the work?

The Witness: Yes.

The Court: How do you arrange for water, because the water system is the same? How do you arrange for sharing the expense of water for irrigation?

The Witness: That just all goes in; Mr. Hagler is very [531] lenient, he didn't particularly care.

The Court: I see. All right.

Mr. Shepard: No further questions.

The Court: All right, step down.

Mr. Griswold: Mr. Hunter.

JOSEPH HUNTER

called as a witness by defendant in surrebuttal, having been previously duly sworn, was examined and testified as follows:

Direct Examination

By Mr. Griswold:

Q. Mr. Hunter, you have heard, related by Mr. Anderson, a conversation that he had with you in 1954, on your ranch?

A. I never had a conversation.

The Court: This witness was asked when he was here before. He was asked if he made that statement and he denied it, and that is why he went into the question with the others. He doesn't need to deny it again.

Mr. Griswold: I don't know whether I asked him this:

Q. Did you or anyone under your control or direction ever touch this discovery tree prior to the time it developed fruit?

A. No; I don't know of anybody that touched it.

Mr. Griswold: No further questions.

The Court: Did you ever give anyone permission——

The Witness: No, sir. [532]

The Court: ——whether Mr. Riesner or anyone else to do any experimental work by grafting something else on?

The Witness: No, I never gave permission.

The Court: Do you know anybody who did?

(Testimony of Joseph Hunter.)

The Witness: No.

The Court: Where is your house located with reference to the——

The Witness: To the orchard?

The Court: ——orchard, yes.

The Witness: It is on the west side of the orchard, next to the road.

The Court: Well, how far would it be from this accused tree, shall we call it?

A. That is across, I would say, about 60 acres, probably, well, I guess close to a quarter of a mile.

The Court: What is your recollection as to the location of this tree?

The Witness: Pardon?

The Court: What is your—not recollection, because the tree is still there. Where is this tree located?

The Witness: Well, it's on the first row on the east of the orchard, and the second tree from the north.

The Court: It has always been there?

The Witness: Ever since I had the orchard.

The Court: How about the second tree that seems to have [533] disappeared. Did you ever remove any tree?

The Witness: No; they are all there; I never took out any tree.

The Court: By the way, did you plant that orchard yourself?

The Witness: Well, I had it planted.

(Testimony of Joseph Hunter.)

The Court: I mean you had it planted. I didn't expect you did the laborer work.

The Witness: Yes.

The Court: That doesn't go with the type of farming done. How many years ago?

The Witness: Well, we had that ranch since about '41, but we didn't plant any trees until, I think, '49.

The Court: And you supervise the operation?

The Witness: Well, I and my brother.

The Court: Your brother?

The Witness: Yes.

The Court: Brother live on the place, too?

The Witness: Yes, when he is not away from the place.

The Court: What is he, one of these hunters?

The Witness: When he is mining.

The Court: I see. Is it possible that anyone could have gone to your place and started this experiment with a tree without your noticing?

The Witness: Well, I don't know any object in doing that.

The Court: I see. All right. [534]

Cross-Examination

By Mr. Shepard:

Q. Just a word, Mr. Hunter. I forgot, your Honor, whether I asked this question: Did you receive a letter from the Kim Brothers in 1954, shortly after their visit, advising you that you had

(Testimony of Joseph Hunter.)

a Sun Grand tree, or Sun Grand trees, on your ranch and that it would be an infringement?

A. I remember getting a letter from—in regard to Kim Brothers.

Q. And they referred to the tree they had seen on their visit out there? A. I guess so.

Q. You are away quite a bit mining, too, aren't you, sir? A. Pardon?

Q. You are away from the ranch in your mining work quite a bit, too?

A. Well, we have another ranch over in the Carruthers district, I was over there, but no more.

Q. In 1954 you were up in Nevada somewhere mining, you said?

A. No; not in 1954. I may have been up there in the late months, but during the fruit season I was either over at the Carruthers ranch or home.

Mr. Shepard: We have no further questions.

The Court: All right. Step down. Any further testimony, gentlemen? [535]

Mr. Griswold: Yes, your Honor, I have one more witness. Mr. Girozian.

The Court: Let's call him back.

VAUGHN GIROZIAN

a witness for defendant in surrebuttal, having been previously sworn, was examined and testified as follows:

Direct Examination

By Mr. Griswold:

Q. Mr. Girozian, you have testified as to the

(Testimony of Vaughn Girozian.)

size of your packing operations. Have you in the same season packed Sun Grand as well as Red King? A. Yes, in 1957.

Q. Is your specialty fresh fruit for the eastern markets?

A. Yes, sir; our main interest is tree fruit. We ship grapes, too, but tree fruit mostly.

Q. And that goes out by rail and truck to all of the eastern markets? A. Yes.

Q. You have seen both varieties of this fruit, have you not, the Red King and Sun Grand?

A. Yes, sir.

Q. Have you, at your packing house, ever had any difficulty in determining which is which?

A. No.

Q. Can you characterize it from a packer's standpoint, [536] how you determine what is Red King and what is Sun Grand?

A. Well, it is more rounded, and then it has got a waxy color, red color, it's got a little lighter color.

Q. You are speaking of the Red King?

A. Red King.

Q. What has been your experience as far as sales of the Red King variety?

A. Well, the Sun Grand is advertised, you know, and they call up and say, "Got any Sun Grands," and I tell them I have no Sun Grands but I got Red Kings, so——

The Court: Good salesman.

(Testimony of Vaughn Girozian.)

A. —they ask me, "How does it compare with the Sun Grand?" I got to be honest with them, I tell them ours is more red, rounded, and got a red color, so they take my word, they say, "Ship me some," and then they always repeat. Our business is, we got so many customers and it is all repeat. If you lie to them once or twice then you got to find new customers, so they take your word for it over the phone, and then they always repeat.

The Court: I gather then you think it is a superior fruit?

The Witness: I think it is, your Honor, it has got a waxier color. Of course, that is everybody's opinion.

The Court: I see. All right.

Mr. Griswold: No further questions.

Mr. Shepard: No questions. [537]

The Court: All right. Now you can go about your business.

Mr. Griswold: That is all, your Honor.

The Court: How about the plaintiff?

Mr. Savage: That is all.

Mr. Shepard: Nothing further.

The Court: All right, gentlemen, we made it with four minutes to spare.

Let the record show that both sides have rested. The only thing that remains is to give the clerk the exhibits, being photographs of the three bags of fruit, and also the photographs of the boxes when they arrive, and they have already been given numbers, and if they are here Monday you may

look at them. If not, we will have to be satisfied with what we remember of the boxes and of the fruit if it isn't too spoiled by that time.

Now, gentlemen, we will have to adjourn until Monday. I am going to give you the entire day, but I don't like to leave counsel and myself in the dark as to the amount of argument. We concluded this case in four days, four trial days, and if you want an entire day you may have it, but I would rather have an understanding of how much time each side wants, because there are just so many hours. Argument is difficult to follow, and much more difficult to take down solidly for the reporter. Miss Schulke is an excellent reporter, as you know, and that is why she has been retained here. I want to tell you she is the only one that has been [538] retained permanently for this division, regardless of who is appointed as a Judge, she will be the reporter of this Northern Division. But it is very hard on the reporter to put in more than four or four and a half hours of argument. It has occurred to me, in order to put in four hours of argument we would have to put in about five hours, because you have to break the continuity. If each side is allowed two hours that should be ample in a case of this kind which is not complicated or involved, and while there are a lot of exhibits, they are unlike any other case because they all relate to a question of identity or similarity or differences between two fruits.

I am anxious to finish this Monday, because if

we don't, we will have to go to Thursday, because I don't want to disorganize the case set for Wednesday by trailing this case.

Mr. Shepard: Sir, on behalf of plaintiff, I would say that we do not anticipate taking two hours.

The Court: There is one other matter, gentlemen. The plaintiff has the opening and closing. Some Judges want the same person to argue. I have no such rule. If you want to make the opening and Mr. Savage make the closing, it is all right with me, so long as you don't repeat, and so far as the defendant is concerned, if you want to divide your argument you may. Sometimes in a patent case there is a division of argument. In these complicated chemical and [539] mechanical patents that we have referred to, we had division because one man handled the scientists and the other man handled the law. If you want, for some reason, to divide your argument you may do so, provided there is no repetition. So you make your arrangement, any way you want.

If that is the understanding, gentlemen, we will adjourn until Monday morning at 10:00 o'clock, and then we will see by noon how we get along. We may cut the noon hour short, as we have done repeatedly. Before I do that, I want to apologize to everybody, including Mr. Eiland, for the long hours. This is not the only case in which we have done it, but it happens that there has been a large number of cases set, and I crowded the people in front of you in order to allow this new date, be-

cause I felt that Judge Jertberg, although he was willing, shouldn't undertake the trial of this lawsuit, because although in fact he was assigned to this district for a month after he took oath, we haven't called upon him to do anything but sign formal orders in matters and finish matters that were left unfinished.

Then we will take our adjournment at this time, and I will see you Monday at 10:00 o'clock.

(Thereupon at 4:30 o'clock p.m. a recess was taken until 10:00 a.m., Monday, November 10, 1958.)

[Endorsed]: Filed January 27, 1959. [540]

[Title of District Court and Cause.]

CERTIFICATE BY THE CLERK

I, John A. Childress, Clerk of the above-entitled Court, hereby certify that the items listed below constitute the transcript of record on appeal to the United States Court of Appeals for the Ninth Circuit, in the above-entitled case:

A. The foregoing pages, numbered 1 to 50, inclusive, containing the original:

Complaint.

Answer.

Pretrial Conference Order, filed 3/3/58.

Minute Orders for 11/4/58, 11/5/58, 11/6/58, 11/7/58 and 11/10/58.

Opinion of the Court, filed 11/21/58.

Findings of Fact, Conclusions of Law and Judgment.

Notice of Appeal.

Designation of Contents of Record on Appeal.

Application for Order Extending Time to File and Docket the Record on Appeal.

Order Extending Time to File and Docket the Record on Appeal.

B. Four volumes of Reporter's Official Transcript of Proceedings had on:

Nov. 4, 1958; Nov. 5, 1958; Nov. 6, 1958, and Nov. 7, 1958.

C. Plaintiff's Exhibits: 1 to 16, inclusive; 19 to 23, inclusive.

Defendant's Exhibits: A, B, F, F-1, G, G-1, H, H-1, I, J-1, J-2, J-3. K and L.

D. Depositions of Howard B. Stafford and Frederic W. Anderson.

I further certify that my fee for preparing the foregoing record, amounting to \$1.60, has been paid by appellant.

Dated: February 6, 1959.

[Seal] JOHN A. CHILDRESS,
Clerk;

By /s/ WM. A. WHITE,
Deputy Clerk.

[Endorsed]: No. 16351. United States Court of Appeals for the Ninth Circuit. Kim Bros., a Partnership, Appellant, vs. L. A. Hagler, Appellee. Transcript of Record. Appeal From the United States District Court for the Southern District of California, Northern Division.

Filed and Docketed: February 6, 1959.

/s/ PAUL P. O'BRIEN,

Clerk of the United States Court of Appeals for the
Ninth Circuit.

United States Court of Appeals for the Ninth
Circuit, San Francisco, California
No. 16351

KIM BROS., a Partnership,
Plaintiff and Appellant,

vs.

L. A. HAGLER, et al.,
Defendants and Appellee.

STATEMENT OF POINTS PURSUANT
TO RULE 17, SUBDIVISION 6

Comes now the Appellant above designated and states the following points on which he intends to rely in this Appeal, pursuant to Rule 17, Subdivision 6 of the Rules of the United States Court of Appeals, for the Ninth Circuit:

1. That the Honorable United States Court below, erred in overruling Appellee's objections to the admission of United States Plant Patent No. 1718, Defendant's Exhibit "A," offered in evidence by Defendants and Appellee.

2. That the Honorable U. S. Court below erred in admitting and in considering U. S. Plant Patent No. 1718, as a valid plant patent, in that said Patent No. 1718 was invalid and in that said Patent did not validly cover the accused fruit of the Defendant and Appellee, which accused fruit was alleged to infringe on Appellant's Patent No. 974; that the claims of said Plant Patent No. 1718 were erroneously interpreted, and erroneously applied to the accused fruit of the Appellee; that said Patent No. 1718 was erroneously used by the Hon-

orable U. S. District Court to invoke the presumption of validity and innocence in favor of the accused fruit.

3. That the errors and admission in the use of Plant Patent No. 1718 were prejudicial in that the evidence concerning the alleged infringement was sharply conflicting and could be reasonably and fairly interpreted in favor of a judgment of infringement.

4. That the following Findings of Fact are not supported by the Evidence:

- (a) Finding of Fact No. 3;
- (b) Finding of Fact No. 4;
- (c) Finding of Fact No. 9;
- (d) Finding of Fact No. 10;
- (e) Finding of Fact No. 11;
- (f) Finding of Fact No. 12;
- (g) Finding of Fact No. 13.

5. That the Paragraph No. 1 of the Conclusions of Law is an erroneous conclusion and unsupported by the evidence.

6. That in view of the above points, the Judgment is erroneous and should be reversed.

Dated: This 2nd day of March, 1959.

SAVAGE & SHEPARD,

By /s/ RICHARD L. SHEPARD,

Attorneys for Plaintiff and
Appellant.

Affidavit of Service by Mail attached.

[Endorsed]: Filed March 3, 1959.

No. 16351

United States
Court of Appeals
For the Ninth Circuit

KIM BROS., a Partnership,

Appellant,

vs.

L. A. HAGLER,

Appellee.

Transcript of Record
In Two Volumes

Volume I
(Pages 1 to 258)

Appeal from the United States District Court for the
Southern District of California
Northern Division.

FILED

JUN 15 1959



No. 16351

United States
Court of Appeals
For the Ninth Circuit

KIM BROS., a Partnership,

Appellant,

vs.

L. A. HAGLER,

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[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matters appearing in the original certified record are printed literally in *italic*; and, likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible, an omission from the text is indicated by printing in *italic* the two words between which the omission seems to occur.]

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NAMES AND ADDRESSES OF ATTORNEYS

For Appellant:

SAVAGE & SHEPARD,
H. A. SAVAGE,
915 Helm Building,
Fresno 21, California.

For Appellee:

WALCH & GRISWOLD,
LYMAN GRISWOLD,
311 North Douty Street,
Hanford, California;

GARETH W. HOUK,
120 West Willow Street,
Visalia, California.

In the United States District Court, for the
Southern District of California, Northern Division
No. 1793—ND

KIM BROS., a Partnership,

Plaintiff,

vs.

L. A. HAGLER and MRS. L. A. HAGLER, JOHN
DOE I, JOHN DOE II, JOHN DOE III and
SALLY SOE I, SALLY SOE II and SALLY
SOE III,

Defendants.

COMPLAINT FOR INFRINGEMENT OF PAT-
ENT, DAMAGES AND FOR AN ACCOUNT-
ING

Plaintiff complains of defendants and for cause
of action alleges:

I.

That plaintiff is a partnership duly constituted
under the laws of the State of California, consist-
ing of Chas. Ho Kim, Hyeng S. Kim and Daisy
Kim; that plaintiff has complied with Sections 2466
and 2468 of the Civil Code of California;

II.

That plaintiff does not know the true names of
the defendants sued herein as John Doe I, John
Doe II, John Doe III, Sally Soe I, Sally Soe II,
and Sally Soe III, and therefore sues said defend-
ants by such fictitious names, and pray that when

the true names of said defendants be ascertained they be permitted to amend this complaint by substituting the true names of said defendants for such fictitious names, together with proper charging allegations;

III.

That on August 22, 1950, the United States of America granted to [2*] Fredric W. Anderson that certain plant patent No. 974, a copy of which is attached hereto and made a part hereof and marked Exhibit "A"; that on the 1st day of September, 1950, the said Frederic W. Anderson assigned, in writing, said patent and all interest therein to Plaintiff herein; and plaintiff herein, is now, and was at all times herein mentioned the exclusive owner of said patent 974; that under the exclusive rights of said patent and covered by said patent the plaintiff herein produced for planting and commercial use, one of the nectarines covered by said patent, commonly called and known as the Sun Grand nectarine.

IV.

That said Sun Grand nectarine is a new variety, especially propagated and produced in co-operation with the said Frederic W. Anderson, assignor of said patent 974, and the plaintiff herein; that said nectarine has a beautiful yellow colored flesh, very palatable, early ripening, a prolific producer, a vigorous tree, and has received consumer approval in the market, and by reason of its excellence in color and texture, the said Sun Grand nectarine

*Page numbering appearing at foot of page of original Certified Transcript of Record.

brings a premium price above the average good quality nectarines, of from \$1.00 to \$2.00 per package, and is extremely valuable commercially; and the description in patent Exhibit "A" is incorporated herein.

V.

That defendants herein, L. A. Hagler and Mrs. L. A. Hagler, own a substantial ranch in Tulare County, and have owned said ranch at all times herein mentioned; and that defendants herein at all times mentioned herein had actual and personal knowledge of the fact that plaintiff herein was the owner of the said patent 974 above referred to, and that under said patent the Sun Grand nectarine, so-called, was covered by said patent; that notwithstanding knowing all these facts and knowing the plaintiff herein was the owner of said patent and of the said Sun Grand nectarine, defendants secretly, clandestinely and with deliberate intent to infringe and violate the patent rights of plaintiff herein, did during the year 1955 graft Sun Grand nectarine scions on other fruit trees on their said ranch in Tulare County, in the amount of 1,012 trees, and that defendants did in the year 1956, secretly and clandestinely bud over 759 trees of the same variety covered by plaintiff's patent, making a total number of trees [3] of the Sun Grand variety which defendants have now planted on their ranch in Tulare County, 1,771 trees, and that the reasonable market value of said trees is \$4.00 per tree, making a total of \$7.084.00 due and owing

from defendants to plaintiff by reason of the unlawful and secret grafting and budding of trees as above stated to Sun Grand nectarine trees;

VI.

Plaintiff further alleges that defendants have marketed fruit from said Sun Grand nectarine trees so unlawfully, clandestinely and secretly budded over and grafted without the knowledge or consent of plaintiff, and in direct infringement and violation of plaintiff's said patent, and have sold and are selling Sun Grand nectarines during the 1957 marketing season, the product of said trees, in the amount of \$35,000.00; and that during the year 1956, plaintiff is informed, and believes, and upon such information and belief, alleges that defendants sold substantial amounts of said Sun Grand nectarines from said budded over and grafted trees, all without the knowledge or consent of plaintiff herein, and in direct clandestine and secret infringement and violation of plaintiff's patent; that plaintiff herein does not know the exact amount received by defendants from the sale of the fruit of the said Sun Grand nectarine trees above described, and in this connection plaintiff demands an accounting of the sale of all of the Sun Grand nectarines sold by defendants from said trees by way of infringement and violation of plaintiff's said patent, and plaintiff alleges that it has suffered actual damages by reason of the violation of said patent in the sum of \$35,000.00 for the season's operation of 1957, in addition to the market value

of said trees as aforesaid; and plaintiff has suffered direct losses of \$4.00 per tree for the grafting and budding of other trees on defendants' ranch in the sum of \$7,084.00; and plaintiff prays that the aforesaid amounts, and each of them, be trebled; that the total amount of \$126,252.00 be awarded by this Court to plaintiff herein by way of damages for the secret and clandestine infringement and violation of plaintiff's said patent by defendants, as herein alleged, and in this connection in substantiation of treble damages as herein prayed for, plaintiff alleges that defendants knew at all times herein mentioned that plaintiff herein owned said plant patent No. 974 on nectarines [4] covering said Sun Grand nectarine; and that the said Sun Grand nectarine above described is covered by said patent;

VII.

That plaintiff believes and does verily fear that defendants will, unless enjoined from so doing by this Court, continue to bud and/or graft other trees to Sun Grand nectarines, and produce, use, and sell said trees without plaintiff's consent; and plaintiff's pray that this Court issue a perpetual injunction enjoining defendants from using, budding, grafting, producing or selling any Sun Grand buds, graft scions, or trees, or selling Sun Grand nectarines, without the consent and license of plaintiff, and that plaintiff has no adequate remedy at law otherwise.

Wherefore, plaintiff prays judgment against defendants for the sum of \$7,084.00, being the actual

value of the Sun Grand nectarine trees at the regular price of \$4.00 per tree, and that said amount be trebled; that plaintiff have judgment also for \$35,000.00 for the value of the fruit of the Sun Grand nectarines sold during the year 1956-57 from the Sun Grand nectarine trees which defendants grafted over to other trees, as hereinabove alleged, and that said sum be trebled in the amount of \$105,000.00; that this Court order the said defendants herein to account for all Sun Grand nectarines, trees, grafts, buds, or otherwise which defendants have utilized in infringement and violation of this patent, and in the sale of Sun Grand nectarines which were not licensed to defendants, or either of them; and that plaintiff have judgment for the proper amount, with damages trebled as ascertained by said accounting; and that plaintiff have such other and further relief as is meet and equitable in the premises; that this Court grant a permanent injunction forever restraining defendants, their heirs, executors, administrators, or assigns, and agents from using, producing or marketing any Sun Grand nectarines, or bud, or scions, or trees, to the effective expiration of said patent, unless licensed so to do by plaintiff; together with costs of action herein.

SAVAGE & SHEPARD,

By /s/ H. A. SAVAGE,

Attorneys for Plaintiff.

Receipt of copy acknowledged.

[Endorsed]: Filed July 23, 1957. [5]

[Title of District Court and Cause.]

ANSWER

Defendants L. A. Hagler and Gladys Hagler, sued herein as Mrs. L. A. Hagler, for answer to the complaint allege:

I.

Answering Paragraph I of the complaint on file herein, said answering defendants allege that they are without knowledge or information sufficient to form a belief as to the truth of the allegations contained in said Paragraph I and therefore deny the allegations of said Paragraph I.

II.

Answering Paragraph III of said complaint, said answering defendants allege that they are without knowledge or information sufficient to form a belief as to the truth of the allegations contained in said Paragraph III and therefore deny that on August 22, 1950, or that on any other date, the United States of America granted to Frederick W. Anderson that certain plant Patent No. 974; [12] said answering defendants further deny on the grounds aforesaid that on September 1, 1950, or that on any other date, that the said Frederick W. Anderson assigned the alleged patent to the plaintiff; still further answering Paragraph III and on the same ground as aforesaid, said answering defendants deny all the remaining allegations of said Paragraph III.

III.

Answering Paragraph IV of the complaint said answering defendants deny each and every allegation of said paragraph; further answering said paragraph said answering defendants deny that the Sun Grand nectarine brings a premium price above the average good quality nectarine of from \$1.00 to \$2.00 per package, or any other amount.

IV.

Answering Paragraph V of the complaint, said answering defendants admit that they own a ranch in Tulare County and admit that they knew that plaintiff claimed to be the owner of a patent covering the Sun Grand nectarine; further answering Paragraph V of the complaint, said answering defendants deny that they secretly or clandestinely or with deliberate intent to infringe or violate the alleged patent rights of plaintiff, or in any other manner whatsoever, grafted in the year 1955, or in any other year, Sun Grand nectarine scions on other fruit trees on their own ranch, or elsewhere, in the amount of 1012 trees, or any other amount of trees; said answering defendants further answering said paragraph, deny that they in 1956, or in any other year, secretly or clandestinely or in any manner whatsoever budded 759 Sun Grand nectarine trees, or any other number of trees; said answering defendants still further answering Paragraph V, deny that there is due and owing from said defendants to plaintiff the sum of Seven Thousand Eighty-four and No/100 (\$7,084.00) Dollars,

or any other sum; and defendants deny all other allegations of said Paragraph V, except [13] as admitted herein.

V.

Answering Paragraph VI of said complaint, said answering defendants deny that they have at any time marketed fruit from Sun Grand nectarine trees; further answering said Paragraph VI, said answering defendants deny that they have sold Sun Grand nectarines during the 1957 marketing season or at any other time in the amount of Thirty-five Thousand and No/100 (\$35,000.00) Dollars, or in any other sum; still further answering said Paragraph VI, said answering defendants deny that in the year 1956, or that in any other year, that they sold substantial amounts, or any amount, of Sun Grand nectarines; further answering said paragraph, said answering defendants deny that plaintiff has suffered damages by reason of any act of said defendants in the sum of Thirty-five Thousand and No/100 (\$35,000.00) Dollars or any other sum; further answering said paragraph, said answering defendants deny that plaintiff has been damaged by reason of any act of said defendants in the sum of Seven Thousand Eighty-four and No/100 (\$7,084.00) Dollars, or any other sum, and defendants deny all other allegations of said Paragraph VI.

VI.

Answering Paragraph VII of said complaint, said answering defendants deny that they intend to bud or graft other trees to Sun Grand nectarines;

further answering said paragraph said answering defendants deny that they intend to produce or use, or sell Sun Grand nectarine trees without plaintiff's consent.

Wherefore, said defendants pray that the complaint on file be dismissed and that they be allowed their costs.

Dated: September 3, 1957.

WALCH & GRISWOLD,

By /s/ JAMES A. GRISWOLD,

Attorneys for Defendants.

Affidavit of Service by Mail attached.

[Endorsed]: Filed September 4, 1957. [14]

[Title of District Court and Cause.]

PROPOSED PRETRIAL
CONFERENCE ORDER

Following pretrial proceedings pursuant to Rule 16 of the Federal Rules of Civil Procedure and Local Rule 9 of this Court, It Is Ordered:

I. This is an action for an injunction to restrain alleged patent infringements, for an accounting of said patent infringements, for damages shown as the result of said accounting, by Kim Bros., a partnership, owner of the Patent, against L. A. Hagler and Mrs. L. A. Hagler, alleged patent

infringers, which issues are raised by the Complaint and Answer thereto.

II. Federal jurisdiction is invoked upon the ground of the Federal Plant Patent Statute 35, U.S.C.A., Sections 31 and 73, as amended in 1930.

III. The following facts are admitted:

(1) That the defendants, L. A. Hagler and Mrs. L. A. Hagler have owned a ranch in Tulare [16] County, at all times mentioned in the Complaint;

(2) That the defendants have growing on their ranch, plots of at least 968 trees and one of 220 trees and one of 672 trees, of which number of trees the defendants allege that they are of an independent variety of nectarines called "Red King," unpatented, and of which number of trees, the plaintiff claims that the same are Sun Grand Nectarine Trees, the same as his Plant Patent No. 974, and that the defendants have no license, permit or consent to maintain such trees; however, it is to be noted that plaintiff claims that the defendants have more than the above-described number of disputed trees growing on their ranch.

IV. The following issues of fact remain to be litigated: All of the allegations set forth in Paragraphs I, III, IV, V, VI and VII of said Complaint except as admissions of certain allegations of Paragraph V, as above described. In other words, the issues of fact are substantially as follows:

(1) The ownership of the Plant Patent No. 974, commonly referred to as the Sun Grand Nectarine and the assignment thereof from Frederick W. Anderson to Kim Bros.;

(2) Personal knowledge of defendant L. A. Hagler and Mrs. L. A. Hagler that plaintiff was the owner of Patent 974;

(3) The premium value of the Sun Grand Nectarine as a commercial fruit;

(4) The grafting, budding, propagating and maintaining of Sun Grand Nectarine by the defendants without consent of the Sun Grand Patent owner, to wit: Kim Bros.;

(5) The number and extent of said patent infringements, to wit: The number of alleged Sun Grand trees propagated and maintained by the defendants;

(6) The value of said trees; [17]

(7) The profits derived from the maintenance and sale of fruit from said trees;

(8) The question of whether any damages determined to exist in favor of the plaintiff, should be trebled, under the Patent Laws;

(9) A permanent injunction, restraining the defendants from using, producing or marketing Sun Grand Nectarine buds, scions or trees to the effective expiration date of said patent without the consent of the plaintiff.

V. The exhibits to be offered at the trial, insofar as are now known, consist of the following:

For the plaintiff:

(1) The Plant Patent No. 974, photostatic copy of which is attached to the Complaint, marked Exhibit "A";

(2) The Buy and Sell agreement, covering said patent, dated August 16, 1948, between Frederic W. Anderson and Kim Bros., and the actual assignment of said Patent, dated July 15, 1951, from the said Frederic W. Anderson to Kim Bros.;

(3) The Federal and State Marketing News Service Reports, of the California Department of Agriculture, and the U. S. Department of Commerce, for Thursday, July 18, 1957; Thursday, July 25, 1957; July 22, 1957, and July 30, 1957.

For the defendants:

(1) Seven invoices bearing Folio Numbers 4127, 1881, 1944, 7219, 4234, 4288 and 4944, relating to sales by plaintiff to Hunter Bros., Visalia, California;

(2) Sales Summary Sheet showing sales made by plaintiff to Hunter Bros., Visalia, California;

(3) Sales Summary consisting of two sheets showing sales by plaintiff to defendant L. A. Hagler, Visalia, California. [18]

The parties have stipulated that either party may introduce as evidence at time of trial exhibits other

than those listed herein provided notice is given to the opposite party at least 20 days prior to the time of trial and opportunity is given to inspect said exhibit or exhibits.

VI. No particular issues of law have as yet been raised in conferences between the parties.

VII. The foregoing admissions having been made by the parties and the parties having specified the foregoing issues of fact and law remaining to be litigated, this Order shall supplement the pleadings and govern the course of the trial of this cause, unless modified to prevent manifest injustice.

Dated: This 4th day of March, 1958.

/s/ GILBERT H. JERTBERG,
United States District Judge.

Approved as to form and content:

SAVAGE & SHEPARD,

By /s/ RICHARD L. SHEPARD,
Attorneys for Plaintiff.

GARETH W. HOUK,
WALCH & GRISWOLD,

By /s/ LYMAN GRISWOLD,
Attorneys for Defendants.

[Endorsed]: Filed March 3, 1958. [19]

[Title of District Court and Cause.]

OPINION

Appearances:

For the Plaintiff:

SAVAGE & SHEPARD, by
H. A. SAVAGE, and
RICHARD L. SHEPARD.

For the Defendant:

WALCH & GRISWOLD, and
GARETH W. HOUK, by
LYMAN GRISWOLD, and
GARETH W. HOUK. [25]

Yankwich, Chief Judge.

By the complaint, plaintiff Kim Bros., a partnership, seeks injunctive relief and damages in the sum of \$7,084.00, the value of the trees, in addition the sum of \$35,000.00, the value of the crops, to be trebled, and accounting from the defendant, L. A. Hagler, for alleged infringement of U. S. plant patent 974 for nectarine trees, issued on August 22, 1950, to Frederic W. Anderson, who assigned it to the plaintiff. [35 U.S.C.A., § 281.] The defendant has denied infringement. His more specific defense set forth in the pretrial order, dated March 3, 1958, is:

“That the defendants have growing on their ranch, plots of at least 968 trees and one of 220 trees and one of 672 trees, of which num-

ber of trees the defendants allege that they are of an independent variety of nectarines called 'Red King.' "

At the trial there was also introduced in evidence defendant's plant patent 1718 for a nectarine tree, issued to the defendant on June 10, 1958, application for which was filed on October 28, 1957. Neither the pleadings nor the evidence challenge the validity of the plaintiff's patent. So the statutory presumption of validity must be given full scope. [35 U.S.C.A., § 282; *Patterson-Ballagh Corp. v. Moss*, 9 Cir., 1953, 201 F. 2d 403, 406.]

The problem to resolve is whether there is infringement. [26] Before stating the conclusion reached on this issue, it is well to make some general observations as to the nature of the patent in suit. The patent was granted under a special statute which provides that:

"Whoever invents or discovers and asexually reproduces any distinct and new variety of plant, including cultivated sports, mutants, hybrids, and newly found seedlings."

with certain exceptions, may obtain a patent which gives him:

"The right to exclude others from asexually reproducing the plant or selling or using the plant so reproduced." [35 U.S.C.A., § 163.]

Because of the difficulty of properly describing a plant, the Congress has waived the provisions of

§ 112 of Title 35 and provided that no plant patent shall be declared invalid for noncompliance with that section

“if the description is as complete as is reasonably possible.” [35 U.S.C.A., § 162.]

In view of the discussion to follow, the rules established by the Patent Office are of interest. They require that the specification contain

“as full and complete a disclosure as possible of the plant and the characteristics thereof that distinguish the same over related known varieties, and its antecedents, and must particularly point out where and in what manner the variety of [27] plant has been asexually reproduced.” [35 U.S.C.A. (37 C.F.R., § 1.163).]

Only one claim is permitted and this is required to be

“in formal terms to the new and distinct variety of the specified plant as described and illustrated, and may also recite the principal distinguishing characteristics.” [35 U.S.C.A.; (37 C.F.R., § 1.164).]

There is also the requirement that plant patent drawings be “artistically and competently executed”; the drawing may be in color “when color is a distinguishing characteristic of the new variety.” [35 U.S.C.A. (37 C.F.R., § 1.165).] Specimens of the plant, or its flower or fruit, in a quantity and at a time in its stage of growth as may be designated, must be furnished, if required, for study and inspection. [35 U.S.C.A. (C.F.R.,

§ 1.166).] To secure the benefits of the statute, the patentee must (1) invent or discover a new and distinct variety of plant and (2) he must reproduce it asexually. The word "plant" is used in the popular and not in the scientific sense. [In *re* *Arzberger*, 27 C.C.P.A., 1940, 112 F. 2d 834, 837.] The object of the enactment was to give to the inventor

"an exclusive right to propagate that plant by asexually reproduction; that is, by grafting, budding, cutting, layering, division, and the like, but not by seeds. [See the report of the House Committee on Patents as quoted in *In Re Arzberger*, *supra*, at page 837.]

The courts have construed this statute strictly so as to confine [28] its benefits to plant life as it is understood in the common language of the people. [*Cole Nursery Co. v. Youdath Perennial Gardens*, 1936, Dist. Ct., Ohio, 17 Fed. Supp. 159; *Bourne v. Jones*, Dist. Ct., Fla., 1951, 114 F. Supp. 413, 418, affirmed in *Bourne v. Jones*, 1953, 5 Cir., 207 F. 2d 173, the Court of Appeals adopting the opinion as its own.]

The patentee who charges infringement is entitled to the presumption of validity. From such presumption no inference of infringement arises. On the contrary, he who charges infringement has the burden of proving it. [69 C.J.S., Patents, § 325; *Macite Corp. v. Davison*, 1954, U. S. App., D. C., 211 F. 2d 650.] Except for the purpose of increasing damages when the infringement is wil-

ful, knowledge or intent is not material. [35 U.S.C.A., § 284; 69 C.J.S., Patent, § 285; *Artmoore Co. v. Dayless Mfg. Co.*, 1953, 208 F. 2d 1, 4-5; *E-I-M Company v. Philadelphia Gear Works*, 5 Cir., 1955, 223 F. 2d 36, 42.]

In the light of what precedes, the solution of the problem of infringement before us is not difficult. In considering the invention, we take cognizance of the fact that the nectarine is a smooth-skinned peach and that a large variety of them exists in the world market. Plaintiff's assignor Anderson, himself, is the patentee of a number of them. This in itself means that the Patent Office will allow a patent for a deviant plant when it is shown to have a few characteristics which distinguish it from others. Anderson, in his patent, claimed only three characteristics [29] for the Sun Grand variety which is covered by the patent in suit:

“1. Its earlier ripening period with respect to other commercial varieties of yellow fleshed nectarines.

“2. Its larger size than the same.

“3. Its superior shipping and eating qualities.”

The single claim is brief and stresses these three characteristics:

“A new and distinct variety of nectarine tree substantially as described and illustrated bearing yellow fleshed freestone fruit characterized by a ripening period between the white fleshed

John Rivers and Grower varieties; approximately two weeks earlier than the yellow fleshed Kim or Bim varieties; and approximately three weeks earlier than the yellow fleshed Le Grand variety; its firm flesh; its relatively larger size; and its superior shipping and eating qualities."

The complaint charged wilful and deliberate violation of the patent rights of the plaintiff and characterized the acts of the defendant as "secret" and "clandestine" and done with "deliberate intent," the proof showed that whatever actions the defendant took in growing the variety they now call "Red King" were open and notorious. There is no credible evidence that the appearance of the branch on what we called, at the [30] trial, the "accused tree," in an orchard other than that of the defendant, and situated across the road from his, was the result of any grafting or budding of a branch or bud from the plaintiff's patented tree. There is a hearsay statement quoting Joseph E. Hunter, the owner of the orchard in which the "accused tree" was found, as saying that two persons, Robert Milton Riesner and Roy Milton Riesner, "may have done it." But they, when called as witnesses by the defendant, testified under oath that they were not on the Hunter Ranch in 1954 at the time the alleged branch first appeared, carrying the new variety which the defendant claims as a sport and which he has patented. Indeed, they testified that the first time they went on the place

was a year later. Their testimony stands uncontradicted. And every one of the persons who could have grafted the tree or budded it with the plaintiff's variety, Hunter, Hagler and their employees, denied such act under oath. It is true that even if the original grafting was an unauthorized and an unreported act committed, designedly or by mistake, by the plaintiff's own employees, it might still be an infringement, if the defendant took the buds and budded other trees. However, in a case of this character, in which it is sought to recover as damages not only the alleged value of the trees planted but also the value of the nectarine crop sold to date by the defendant, to be trebled; and an injunction and an accounting are demanded to prevent or ascertain future damages, it is proper to call attention to the disparity between certain broad allegations on this subject in the complaint and the scant proof in the record. The absence of wilfulness, of [31] course, would call for the denial of treble damages only. [35 U.S.C.A., § 284; *Artmoore Co. v. Dayless Mfg. Co.*, *supra*; *E-I-M Company v. Philadelphia Gear Works*, *supra*.] However, we are of the view that the plaintiff has failed to prove that the trees grown by the defendant were the result of the appropriation by the defendant of the plaintiff's Sun Grand patent or that, to be more specific, during the year 1955 the defendant grafted Sun Grand nectarine scions on other fruit trees, or that in the year 1956 he budded trees of the same variety covered by the plaintiff's patent. We are also of the view that the evidence in the

record warrants the conclusion that the trees of the defendant were the result of a sport or deviant and are of an independent variety named "Red King," as developed by him and covered by plant patent 1718, filed October 28, 1957, and issued on June 10, 1958.

No pleading has challenged the validity of the defendant's patent, knowledge of which was conveyed to plaintiff before suit. No written notice, as required by statute was given to them. However, the court absolved the defendant of the default as permitted by the statute. [35 U.S.C.A., § 282.] And the defendant is entitled to the same presumption of validity as the plaintiff. [35 U.S.C.A., § 282.] The Supreme Court has stated:

"The issue of the patent is enough to show, until the contrary appears, that all the conditions under which a discovery is patentable in accordance with the statutes have been met. Hence, the [32] burden of proving want of novelty is upon him who avers it. Walker on Patents, § 116. Not only is the burden to make good this defense upon the party setting it up, but his burden is a heavy one, as it has been held that 'every reasonable doubt should be resolved against him.'" [Mumm v. Decker & Sons, 1937, 301 U. S. 168, 171.]

Our own Court of Appeals has given the reason for the presumption arising from the Congressional enactment:

“The presumption created by the action of the Patent Office is the result of the expertness of an administrative body acting within its specific field and can be overcome only by clear and convincing proof.” [Patterson-Ballagh Corp. v. Moss, 9 Cir., 1953, 201 F. 2d 403, 406.]

This language is especially appropriate to the situation which confronts us here. The Congress in enacting the provisions for the patenting of plants, 35 U.S.C.A., 161, et seq., has, of necessity, been compelled to dispense with the many rigid requirements as to the specifications, thus giving broad latitude to the administrative procedures in the Patent Office. And the regulations already referred to indicate that the Patent Office, aware of its responsibility, has made the added requirements as to specifications, drawings, color photography, and actual supply of specimens for inspection and comparison. [33] In this manner, when they, with the knowledge of the field and of the prior art were satisfied that, in the crowded field of nectarines, the defendant had developed, from a sport or mutant, a nectarine which had sufficient new characteristics to amount to invention, their finding should be given due weight. The evidence in the record confirms the correctness of the determination of the Patent Office. For I am satisfied that the credible evidence warrants the conclusion that the nectarine grown by the defendant differs in coloration from that of the plaintiff. An examination of the actual fruit and the photographs in-

troduced shows clearly the difference in coloration between the defendant's fruit which is reddish, and the plaintiff's fruit, which is orange. There is similar difference in coloration in the pit cavity of the fruit, the defendant's fruit having a reddish color around the pit. The fruits differ in size and shape as do also the pits. And there are also marked differences in the leaves as to shape, color and the glands on them. Because only two crops of the defendant's fruit have been harvested, the evidence as to earlier ripening could not be established with the same certainty with which the ripening period of an older variety could be established. However, I am convinced that, on the whole, the evidence sustains the conclusion that the defendant's variety ripens five or six days earlier than the fruit of its parent variety Le Grand, as claimed in the defendant's patent. [34]

The object of the statute relating to plant patents was declared by the Committee on Patents of the House of Representatives which reported the bill, to be,

“to afford agriculture, so far as practicable, the same opportunity to participate in the benefits of the patent system as has been given industry, and thus assist in placing agriculture on a basis of economic equality with industry.”
[As quoted in *In Re Arzberger*, *supra*, page 837.]

The fact that so many varieties are recognized as to one tree and that the plaintiff himself has ob-

tained patents on a large number of them on a showing of minor differences in the tree and the fruit, is proof that it would be contrary to the intention of the Congress to allow one patentee to claim a monopoly of the field so as to exclude other trees clearly different in their appearance and structure and unequivocally shown to be the product of a sport or mutation. Judges who have been called upon to interpret this statute have hesitated to find infringement in the absence of clear and convincing proof. Thus Judge Jones of the Northern District of Ohio, in a similar situation, wrote:

“From a consideration of all of the evidence upon that subject, I feel unable to say that it would be impossible to reproduce or duplicate substantially the character of plant of the plaintiff without cuttings from the Horvath plants. Conceding that the plants of the [35] plaintiff and of the defendants have similar characteristics, the proof is not clear and convincing that the plaintiff must have appropriated plants or cuttings belonging to Horvath or his assignee.” [Cole Nursery Co. v. Youdath Perennial Gardens, *supra*, page 160.]

In the present case, I am of the view that not only has the plaintiff failed to prove by clear and convincing proof that the trees grown by the defendant are an infringement upon his patent, but, on the contrary, there is ample proof to show that the trees grown by the plaintiff were a sport or mutation of the Le Grand tree. This conclusion is not

in any way weakened by the testimony in the record given by a well-known scientist in the field of genetics that sports or mutations in the nectarine field are rare. Rarity of occurrence does not stand in the way of recognizing the incidence of mutation and the consequent development of a new plant. Indeed, the enactment of this very statute presupposed the possibility of mutations. In one of the reported cases, *Bourne v. Jones*, Dist. Ct. Fla., 1951, 114 F. Supp. 413, 418, it is reported that "a million seedlings" of sugar cane were tested to find "only twenty new varieties that were worthwhile," and that the three patented varieties "were selected from literally thousands of seedlings" and plants grown from them. So long as mutation is in the realm of possibility, on the facts before me I am of the view that the evidence in the record warrants the conclusion that we have before us one such rarity, i.e., trees grown by the defendant not from grafts or buds appropriated from the plaintiff's patented tree, but as a sport or mutation. The inventor of the patented plant, Frederic W. Anderson, admitted the possibility of the type of mutation which is claimed here. To quote from the record:

"By Mr. Griswold:

Q. That is one way, mutation, is it not, that new varieties are brought into existence, into being? A. Yes.

The Court: Go ahead, you may explain. You hesitated. You may give a reason.

A. Yes. I think I made the explanation

when we discussed mutation, mutations cover a broader field. This they said was a bud sport. Now a bud sport is a mutation, but it is a special kind of a mutation that comes only from buds.

“By Mr. Griswold:

Q. Am I correct that if a nectarine was a mutation that it would be extremely remote, if not impossible, to be the same plant patent No. 974?

A. Yes, you are wholly correct.

974? A. Yes, you are wholly correct.

Q. So, in other words, the chance of a mutation having all the characteristics of your plant patent 974 is impossible, or could we go that far? A. It is going very far.

The Court: I presume ‘remote’ would be a better word.

The Witness: Yes, extremely remote. It has never happened in the history of horticulture, but that is not saying that it couldn’t be some place.’ (Emphasis added.)

Truly, in the words of Ecclesiastes, there came to the defendant “a time to plant, and a time to pluck up that which is planted.” (Ecclesiastes 3:2.) It is true that

“He who discovers a hitherto unknown phenomenon of nature has no claim to a monopoly of it which the law recognizes.” [Funk Bros. Seed Co. v. KaloCo., 1948, 333 U.S. 127, 130.]

Nevertheless, the Congress has seen fit to grant a patent monopoly to those who produce new plants by

“grafting, budding, cuttings, layering, division, and the like, but not by seeds.” [House Committee on Patents as quoted in *In Re Arzberger*, *supra*, page 837.]

So that even if it be assumed that the validity of the defendant's patent could be open to challenge in a proper proceeding, the conclusion is warranted that the proof in the record shows that the plants grown by the defendant were developed by him from a sport or mutation and not by an appropriation or use of the plaintiff's patent.

In sum, nature has bestowed on the defendant agriculturist one of its rare gifts, a plant mutation. He, having grown from it the variant trees by the asexual means provided in the statute, should not be deprived of the increments of the gift and of his own skill in growing from it a new plant producing a different fruit of the nectarine variety, by a broad judicial interpretation of the limited claim in the plaintiff's patent. Progress in the agricultural field, as in other fields, lies more in the encouragement of experimental and competitive variation rather than in upholding rigid and monopolistic uniformity in a single and crowded plant field. Thus the work of nature is aided. For has it not been written:

“God moves in a mysterious way, His wonders to perform?” [Light Shining Out of

Darkness, by William Cowper, as quoted in Familiar Quotations by John Bartlett, 11th ed., 1937, page 266.]

Judgement will, therefore, be for the defendant, that plaintiff take nothing by its complaint. Costs to the defendant. Formal findings and judgment to be prepared by counsel for the defendant under Local Rule 7.

Dated: November 21, 1958.

/s/ LEON R. YANKWICH,
Chief Judge, United States
District Court.

[Endorsed]: Filed November 21, 1958.

In the United States District Court, for the Southern District of California, Northern District
No. 1793-ND—Civil

KIM BROS., a Partnership,

Plaintiff,

vs.

L. A. HAGLER and MRS. L. A. HAGLER, et al.,
Defendants.

FINDINGS OF FACT, CONCLUSIONS OF
LAW, AND JUDGMENT

The above-entitled cause came on regularly for trial, commencing on the 4th day of November,

1958, before the above-entitled Court, sitting without a jury, Savage & Shepard, by H. A. Savage and Richard L. Shepard appearing for the plaintiff, and Walch & Griswold and Gareth W. Houk, by Lyman D. Griswold and Gareth W. Houk, appearing for the defendants, and evidence, both oral and documentary, having been introduced and the matter having been submitted to the Court for its decision and the Court having heretofore on the 21st day of November, 1958, filed its opinion, the Court now finds the facts and states the conclusions of law as follows:

Findings of Fact

1. The nectarine is a smooth skinned peach.
2. A large variety of nectarines exist in the world market.
3. The United States Patent Office will allow a patent for a deviant plant where it is shown to have a few characteristics which distinguish it from other plants.
4. Plaintiffs patented variety known as the "Sun Grand," U. S. Plant Patent No. 974 for nectarine trees issued on August 22, 1950, to Frederic W. Anderson, has the following characteristics:
 - a. An early ripening period, with respect to other commercial varieties of yellow fleshed nectarines.

- b. A larger size than the same.
- c. Superior shipping and eating qualities.
5. There was no grafting or budding of a branch or bud from plaintiff's patented tree to any other tree by the defendants, their agents, servants or employees.
6. The nectarine trees grown by the defendants were not the result of appropriation by defendants, their agents, servants, or employees, of plaintiff's Sun Grand patent.
7. During the year 1955, defendants, their agents, servants or employees, did not graft Sun Grand Nectarine Scions on other fruit trees.
8. In 1956, defendants, their agents, servants, or employees, did not bud trees of the same variety as covered by plaintiff's patent.
9. The trees of defendants were the result of a sport or deviant.
10. The trees of defendants are of an independent variety named "Red King."
11. The trees of the defendants were developed by defendants and covered by U. S. Plant Patent No. 1718, filed October 28, 1957, and issued on June 10, 1958.
12. The nectarines grown by defendants under U. S. Plant Patent No. 1718 differ from those of plaintiff grown under U. S. Plant Patent No. 974 in the following respects and particulars:

- a. Coloration of fruit.
- b. Coloration of pit cavity.
- c. Size and shape of fruit.
- d. Size and shape of pits.
- e. Difference in leaves as to shape, color, and glands.

13. The nectarines grown by defendants under U. S. Plant Patent No. 1718 ripen five or six days earlier than the fruit of its parent variety, "Le-Grand."

Conclusions of Law

1. There has been no infringement of plaintiff's U. S. Plant Patent No 974, issued on August 22, 1950, to Frederic W. Anderson.

2. Plaintiff has suffered no damages in this action.

Judgment

In accordance with the foregoing findings of fact and conclusions of law, It is Ordered, Adjudged and Decreed:

That plaintiff do have and recover nothing from the defendants by reason of this action against said defendants; that said action be and the same is hereby dismissed on the merits and that the defendants do have and recover of and from the plaintiff their costs in this action in the amount of \$242.80.

Dated December 15, 1958.

/s/ LEON R. YANKWICH,
Chief Judge, United States
District Court.

Affidavit of service by mail attached.

Lodged November 26, 1958.

[Endorsed]: Filed December 5, 1958.

Entered December 8, 1958.

[Title of District Court and Cause.]

NOTICE OF APPEAL TO COURT OF AP-
PEALS UNDER RULE 73-B

Notice is Hereby Given, that Kim Bros., a partnership, Plaintiff above named, hereby appeals to the United States Court of Appeals for the Ninth Circuit from the Final Judgment entered in this action, on December 8, 1958.

Dated: This 11th day of December, 1958.

SAVAGE & SHEPARD,

By /s/ H. A. SAVAGE,
Attorneys for Appellant.

Affidavit of service by mail attached.

[Endorsed]: Filed December 18, 1958.

In the United States District Court, Southern
District of California, Northern Division
No. 1793-ND—Civil

KIM BROTHERS, a Partnership,
Plaintiff,

vs.

L. A. HAGLER,
Defendant.

Honorable Leon R. Yankwich, Chief Judge presiding.

REPORTER'S TRANSCRIPT OF
PROCEEDINGS

Appearances:

For the Plaintiff:

SAVAGE & SHEPARD By
H. A. SAVAGE, ESQ. and
RICHARD L. SHEPARD, ESQ.

For the Defendant:

WALCH & GRISWOLD and
GARETH W. HOUK by
LYMAN GRISWOLD, ESQ. and
GARETH W. HOUK, ESQ.

November 4, 1958—10:00 A.M.

The Clerk: 1793, Kim Brothers v. Hagler, for trial.

Mr. Shepard: Ready for plaintiff, your Honor.

Mr. Griswold: Defendant is ready.

The Court: Gentlemen, as I informed you in chambers, I familiarized myself with the pleadings in the case. As I also informed you, as is the rule in patent cases, the only question we will go into is the problem of infringement, and of course that implies also the problem of validity. We will not go into the question of any damages, because under the practice which obtains in patent cases the problem of damages is usually left for determination by a master later on, after the interlocutory decree has become final. Of course, if the Court finds the patent is not valid, or if valid not infringed, we never reach the problem of damages, but even if the Court finds that the patent is valid and infringed, the general rule is, as I pointed out to you, by reference to one of my brief opinions, *Elrick Rim Co. v. Reading Tire Machinery Co.*, decided December 5, 1957, and reported in 157 Fed. Sup. 60, the order usually provides that the matter of damages be deferred, to be referred to a master at such time as the decree has become final. Of course, the opposite situation is that which obtained in another opinion of mine which is also filed, and that is [3] *Everlube v. Electrofilm*, 1954 Fed. Sup. 788, and the same rule has been followed consistently. There is only one exception to the rule, and that is in a case involving a coin machine, where after the judgment had become final I decided we would gain time if I myself heard the testimony relating to damages, but that was caused by the fact that the

*Page numbering appearing at top of page of original Reporter's Transcript of Record.

defendant had kept no books, and therefore it was necessary, more or less, to approximate the profits that he made as a basis for damages. So with my statement on the record, and the informal discussion we had, we are ready to proceed. If you desire to make an opening statement I will be very glad to have you do so.

OPENING STATEMENT ON BEHALF OF PLAINTIFF

Mr. Shepard: Your Honor please, Richard Shepard for the plaintiff. I would like to make a brief opening statement. I appreciate that you read the pleadings and are probably familiar with the issues which were set forth in the pretrial order of Judge Jertberg, sometime ago, last May, I believe.

A word about the pleadings, we feel that no particular issue as to the validity of this patent has been raised, and as we understand it any defenses involving the validity of the patent must be raised and separately pleaded, and there have been none specially pleaded.

The only issue on the patent seems to be the ownership, and whether the patent was regularly issued to the assignor of [4] the plaintiff and the plaintiff.

With that word, and a word about the action involving the infringement of a plant patent, we might as well say at the outset that we feel that this is going to be a case of perhaps first impression. We are going to show the issuance of a plant pat-

ent 974, as we have pleaded, and that it was regularly issued on about August 22, 1950, to Frederic W. Anderson, and for the sake of brevity and nomenclature, if it permissible, that patent has been continually and at all times referred to as a Sun Grand nectarine, and rather than speak of patent 974, whenever we refer to a Sun Grand nectarine we will be referring to this patent 974. We will show that this patent was granted on August 22, 1950, that thereafter, about January, 1951, it was regularly and duly assigned by the then owner of the patent to Kim Brothers, a partnership, who are also known sometimes as the Reedley Nursery, but who are formally pleaded as Kim Brothers, a partnership; and that as soon as it was regularly at issue, and within a few months after its assignment, the nectarines covered by this patent were propagated by the assignee, Kim Brothers, and they were commenced in regular market, being sold from their nursery in Reedley, California, here in Fresno County, and that at all times, of course, they had been regularly labeled as being a patented product.

Briefly, we will show that the Sun Grand nectarine has [5] become one of the most popular nectarines in California, even if we are not going to go into the value of it at the present time, and that great quantities of this Sun Grand nectarine have been sold through regular individual licenses and sales by Reedley Nursery to various growers throughout the Valley, and that it became a heavy shipper in the fruit industry among nectarines, and

that at least by this year, 1958, when the first officially compiled statistics of California production were got together in the California Tree Fruit Agreement, an official government body, by this time Sun Grands were high among the nectarines shipped in quantity.

We hope to show the Court, and I think the Court will realize on a moment's reflection, that there is a number of years between the planting or propagating of a nectarine, or any tree fruit, and the actual harvesting of the fruit, and that for the purposes of marketing and making a profit from the nectarine trees approximately at least three and probably a minimum of four years must elapse before the tree is heavily producing, or substantially producing.

The Court: Well, that is true of even the natural citrus trees.

Mr. Shepard: That is true, your Honor, and I point that out and appreciate that your Honor does appreciate the fact, as distinguished from mechanical patents. [6]

The Court: I am familiar with that. I came from this part of California. I began practicing law in 1909 in Stanislaus County, and I have had a good deal of experience in dealing with agricultural products. In fact, one of the patents I tried in Los Angeles related to a potato sacker, many years ago.

Mr. Shepard: At any rate, we want to point out through witnesses to the Court that there is a lag in number of years between the propagation and harvesting, and also a certain lag in years before

a fruit can be positively identified. And so in this case, we will show that the assignee of the patent, Kim Brothers, did not at any time give to the defendant, L. A. Hagler, a license to grow Sun Grand nectarines, or a license to use the plant patent 974, but notwithstanding this lack of license from the exclusive owner and holder of the patent we will show that it came to our attention in 1957, shortly before the issuance of this complaint, that the defendant L. A. Hagler had on his ranch a substantial quantity of trees, which after inspection our witnesses determined to be Sun Grand nectarines.

I call to the Court's attention the fact that the defendant Hagler has admitted that he has a certain number of nectarines, which he calls Red King, that he has blocks, one of approximately 968 trees, one of a little over 200 trees, and another of some 672 trees, and it is these blocks [7] of trees on his ranch that our witnesses will describe and identify as Sun Grand nectarines, or as the same nectarine as under plant patent 974.

Now, the Court has intimated or has instructed that the problem of damages will properly be reserved until after the finish of this trial, if there are any damages to be assessed at all. However, it would be our opinion, subject to the Court's wishes, that the matter of treble damages under the statute which we have pleaded should be a matter for the Court to look into at this hearing.

The Court: Well, the Court, in determining whether damages are allowed, determines on the facts whether there has been——

Mr. Shepard: Wilful?

The Court: —wilful infringement, and in the very case to which I called your attention, I determined that in the light of the facts the damages should be limited to a single amount. That doesn't require going into the exact figures.

Mr. Shepard: That was my understanding, your Honor, but I wanted to make myself clear.

The Court: That is all right.

Mr. Shepard: Now, we have pleaded wilfulness, and in order to show the wilfulness, wilful infringement of the patent as we allege, we will put on evidence (1) to show, contrary to defendant's pleading, that the defendant knew [8] that the Kim Brothers, the plaintiff, were owners of the plant patent 974. We will also put on evidence to show that they were familiar with Kim Brothers being owners of a large number of other nectarine patents.

The Court: That itself does not produce wilfulness.

Mr. Shepard: I realize that.

The Court: Wilfulness there is implied, for instance, as a man who has had no experience in the field deliberately going out and taking the product, or an employee formerly employed going out and imitating it, because knowledge itself doesn't mean anything. Mere knowledge is no defense. It isn't like in copyright. In copyright there is such a thing as conceiving a thing independently, and in patents the law doesn't recognize that. Even if you conceived it independently, the mere fact that some-

body else did it before you makes you an infringer.

Mr. Shepard: That is correct. Now, your Honor——

The Court: I don't want you to go into detail. Even when I try a case with a jury I don't believe in conditioning a jury, and you can't condition a judge. I don't believe in going into detail what you are going to prove. I want you to generally outline your proof, without going into the specific type of testimony that you think will prove this or another fact. Otherwise, the opening statement becomes an argument, which isn't proper, until such time as [9] all the evidence is in and the Court is ready to hear argument.

Mr. Shepard: I merely want to give the Court a sort of bird's eye view of what is involved here, so that the Court can fit it in as it comes along. Now, what I started to say is, we expect to show that the defendant wilfully infringed on the patent, and we expect to show as one of those elements that he had infringed on other patents of the plaintiff previously, and that there was a scheme and device to defeat the plaintiff's patent in this case. We expect most of our testimony to rest on expert witnesses, and a good deal of it may involve rebuttal of the defendant's witnesses, of such evidence as they have.

The Court: Well, that is all right. I don't permit rebuttal testimony to go in as a part of the plaintiff's case, because many a time issues are raised which are not pressed.

Mr. Shepard: That is right, your Honor, and

for that reason we are going to put on our direct case of identification of the trees, and that will be our principal direct case.

The Court: All right. Do you gentlemen desire to make an opening statement? I think it would be helpful because the pleadings are mostly denial. There are no affirmative defenses, so I would be very glad to hear from you, any of you gentlemen, Mr. Griswold or Mr. Houk, what your real contention is, because the pretrial order which I have read, [10] indicates more issues than are to be pressed. Ultimately a pretrial order aims to overstate rather than limit, at times, the issues. Counsel always seem to be fearful that perhaps they have limited themselves too much by pretrial orders.

Opening Statement on Behalf of Defendant

Mr. Griswold: If the Court please, I can agree with counsel for the plaintiff that actually the name Sun Grand in this case could be labeled Sun Grand v. Red King, and that will be undoubtedly the descriptive words that will be used by the witnesses throughout this case, that is, the Sun Grand being the patent 974, and the variety which the defendant claims is a non-infringement as Red King.

Now, we agree that the principal issue here is one of a question of infringement, and it will be readily apparent to the Court that the heart of this case is whether or not the defendant is the posses-

sor of a distinct and new variety of plant, under 35 U. S. Code 161, which is the basic right granted in the issuing of patents, because in our general denial and subsequent to the filing of this suit there has been granted to the defendant, Lyle Hagler, plant patent No. 1718, granted June 10, 1958, which covers the variety which in our position is that it is a new and distinct variety of nectarine, and does not infringe and raises a presumption, as a matter of fact, that it is a new [11] and distinct variety by reason of the granting of the patent.

Just to outline very briefly, it is our position and proof that in 1954 the defendant in a cultivated orchard under his supervision, near Visalia, Tulare County, California, while he was picking in a LeGrand orchard under his supervision, he discovered a sport on a LeGrand nectarine tree, and that it is our proof and will be our proof that at no time or place did we ever acquire a Sun Grand bud or Sun Grand limb, or anything of the Sun Grand, or any part of patent 974, and that every tree which it is claimed by the plaintiff that we are growing, which they claim to be Sun Grand, came from this sport, from this single tree on this orchard near Visalia, California, and consequently this is the variety which we now hold a patent on, and it is biologically and botanically impossible that this sport could be an infringement of the patented variety Sun Grand as claimed by 974.

As the Court undoubtedly will hear, this nectarine is a smooth skinned peach, the fruit has been

known for 2,000 years, and is often referred to as the classical example of bud and seed variation.

We are prepared further, through the use of photographs and verbal testimony, and also economic factors, to show that the Red King is different in many respects, and we believe will be obvious to the trier of facts when a visual [12] presentation is made as to the differences between these two. So that under our general denial, it is our position that at no time and place have we ever taken any of the Sun Grand buds, or any part of the Sun Grand, and that this Red King, which is our patent, is wholly separate and distinct and represents a new and patentable variety.

Mr. Shepard: Your Honor, I didn't want to interrupt counsel's argument, and I hope you appreciate I didn't do so out of courtesy. We will object, however, to any mention or introduction of this so-called Red King plant patent 1718, which has just been mentioned for the first time in these proceedings. I think it was issued June 10, 1958. We object to the reference to the same, and any attempt to use the same, or presumptions thereto, as being not pleaded, not within the scope of the pretrial order, and——

The Court: They can always show as a part of the general denial that the process they are using is not your process.

Mr. Shepard: That is correct, your Honor, but——

The Court: Furthermore, you must bear in mind, this is a very limited patent as to plants, as

provided in Section 61, and it is always permissible under the general denial to show that the process of the defendant is not the process of the plaintiff.

Mr. Shepard: That is true, your Honor, but we feel that [13] under the Court's rules and the pre-trial issues here that no mention has ever been made of this patent to date. We have no objection, and expect the defendants to attempt to show how their tree differs, but we object to them bringing in a patent and saying that that covers their tree, when they have never mentioned it to date.

The Court: Well, they are pleading a different plant, whether they are using it under a patent or not doesn't make any difference. They are not required to give you notice. If you read the section as to notice, notice is required only in cases where they are attacking the validity of the patent, when they are required to show you the patent on which they are relying; but they can always show on general denial that what they are doing is a different process which they have also patented.

Mr. Shepard: Well, your Honor, it seems to me that when this patent is raised for the first time, we have very little opportunity, if any—

The Court: That doesn't make any difference. You are supposed to come into court ready to defend it.

Mr. Shepard: We are ready to defend our patent.

The Court: There is no requirement requiring notice.

Mr. Shepard: I call the Court's attention to the pretrial order——

The Court: The pretrial order says specifically that [14] they are denying all of your paragraphs I to VIII, and the paragraphs I to VIII are the paragraphs in which you allege that they are budding trees, according to your patent.

Mr. Shepard: I am specifically referring to that section of the pretrial order——

The Court: Just a minute, let's look at the pretrial order.

Mr. Shepard: Paragraph V, and the last sentence of that paragraph on the last page of the order.

The Court: Find the pretrial order for me.

Mr. Griswold: If the Court please, we will offer, of course, a certified copy at a proper time, but at this time we have made no offer in evidence.

The Court: We might just as well discuss the scope so we will have an understanding of what we are going to do. You mean the paragraph at the top of page 4, as to notice?

Mr. Shepard: Yes, your Honor.

The Court: However, the object of pretrial is to clarify issues, and as the case proceeds if you are taken by surprise, this being a non-jury case, the Court can keep it open so as to give you an opportunity. The object of pretrial is to crystallize issues, but not to freeze them to such an extent that the defendant is deprived of an opportunity of presenting his claim. Regardless of any patent, the defendant would be permitted as a defense to [15]

show that his product is different. As a matter of fact, the subdivision 4 on line 27 leaves open the issue, "The grafting, budding, propagating and maintaining of Sun Grand nectarine by the defendants without consent," under that, they not only can prove a negative, they can prove a positive. They can prove that they are grafting according to an entirely different patent, just as in the case I mentioned to you in chambers. It was a case under a license. The validity of the patent was involved, but the question of infringement didn't come before the court, and there the defendant proved that they weren't using it. So in this particular case, even assuming that they can't plead a patent because they haven't given any notice, they can still show that the nectarine they are producing is an entirely different product than yours.

Mr. Shepard: I have no argument with that, your Honor, but that is different from showing they are shielded by a patent, a paper patent which they have——

The Court: I will allow them to do even that, subject to giving you notice. If you are taken by surprise I will give you time for rebuttal later on. I am not going to interrupt the trial or continue it at the present time.

Mr. Griswold: If the Court please, my co-counsel, Mr. Houk, states that in June, I think, he told Mr. Shepard that we had a patent on the Red King variety. Is that right, [16] Mr. Shepard?

Mr. Shepard: Yes, and he gave me no opportunity to examine it. Furthermore, he didn't give

me the number; he gave me no intimation you were going to use it in the trial.

The Court: At this time we will proceed with the case, and if counsel has been taken by surprise by this patent, then I will take proper action to relieve him of surprise. I have a right to amend the order, and that order is not a Draconian law. A pretrial is supposed to aid the expeditious determination of issues; it is not supposed to be a means of preventing a person from presenting a proper defense.

Mr. Shepard: I grant you that.

The Court: All right. If it were a statutory notice—that was a voluntary thing on their part, and on your part, saying we are not going to use any exhibits. As a matter of fact, this is no criticism, although the rule requires exhibits to be set forth, in no pretrial order that I handle do I limit the parties to exhibits. If I do, I merely say other reservations being made. I remember trying a case in Oregon, a patent case, and they identified 175 exhibits, it took them three days to just go through the motion of identifying them. Then I ruled out certain defenses, and the result was that a lot of the time we had taken in pretrial was absolutely wasted, because the pretrial had not [17] determined the scope of the defense.

Mr. Shepard: Your Honor, that is one of the reasons I brought it up. I am sure the defendant, and I will admit we have certain exhibits that we have not listed in the pretrial order, and rather than have them object to ours because we have not

displayed them to them, I am sure the pictures they know about, I wanted to set the record straight by objecting to theirs on the basis of——

The Court: I want to say, gentlemen, that regardless of any undertaking, if I believe, in my opinion, that those exhibits are available, I shall exercise the prerogative of asking you to produce them. You want to remember this, gentlemen, the judge in a federal court is, even in a jury case, what Mr. Chief Justice Taft called “the governor of the trial,” so regardless of pretrial orders the Court, as the trier of the facts, may say, “I want this piece of evidence introduced.”

Mr. Shepard: Very good, your Honor.

The Court: All right.

Mr. Shepard: I just wanted to clairfy that before I start.

The Court: Let's try this lawsuit, and we will get to the defense when they present it.

Mr. Shepard: Very well, your Honor.

The Court: All right. Let's take a short recess before you call your first witness.

(Short recess.) [18]

The Court: Go ahead.

Mr. Savage: Mr. Frederic Anderson, will you take the stand, please?

FREDERIC W. ANDERSON

called as a witness by plaintiff, having been first duly sworn, was examined and testified as follows:

The Clerk: State your full name, please.

The Witness: Frederic W. Anderson.

Direct Examination

By Mr. Savage:

Q. Mr. Anderson, where do you live?

A. Merced, California.

Q. And how long have you lived there?

A. Since 1932.

Q. How old a man are you, Mr. Anderson?

A. Sixty-six years, born July 14, 1892.

Q. And will you please give to us your occupations and activities leading up to your background as a plant or tree propagator of new varieties?

A. Well, I am a fruit breeder and orchardist, if that is what you mean.

Q. Yes. I am more interested in your qualifications and background, education.

A. Well, I had the usual grammar and high school education, and then went to San Jose State Normal School, graduated [19] there in 1910, and taught school for approximately six years, and then went to the—during that period I became much interested in Luther Burbank's work. He was at the height of his popularity at that time, so I wanted to get into fruit breeding and orcharding,

(Testimony of Frederic W. Anderson.)

so I decided to go to the University of California, Department of Agriculture, and majored in pomology, and in fruit breeding as a minor. The war intervened in 1918, and I was in the army for a year, and then came back and finished my work at the University, graduated with a Bachelor of Science degree in 1919, and then wanting to get into the type of work I was interested in, applied for work in a nursery and went to work for Kirkman Nurseries here in Fresno in 1920, and——

Q. Just what was your activity for Kirkman Nurseries?

A. Well, at that time, that year, I just did, oh, all kinds of work in propagation and growing, anything from driving mules to irrigating, and all that sort of thing, and was only there, I think, less than a year, when I went and taught school at Ventura, and taught there for—taught agriculture in high school at Ventura for a year and a half, and then the nurserymen were organizing a bud selection association to select better fruit trees of each variety, and Mr. Kirkman wrote me and asked me if I would come and join them in that work, and that they would only be operating in the summer-time while they were cutting buds and that he [20] would employ me during the winter period when the bud selection setup wasn't operating. So I came back and went to work on that, and worked on that until 1932, when I went to farming for myself.

Q. In connection with this California Nursery Association, what was your responsibility, and ac-

(Testimony of Frederic W. Anderson.)

tivities there in connection with bud selection and plants?

A. Well, the first was to be certain that the variety the nurserymen were propagating were true to name, true to the variety, and then it was hoped that we would find bud sports of at least some of the varieties that would give better strains of the particular varieties, so we spent most of our time on that, and then making trees that we were sure were true to name, and preferably the best of their type.

Q. It was part of your duties then to segregate nurseries and tree plant fruit to be sure they were true to name and distinguishable by variety?

A. Yes; that is true, and we also cut the buds for the various nurserymen, members of the association, and in addition to that went over the nursery rows to attempt to detect mixtures. Mixtures occur because of errors of human beings all along the line in handling the buds and budding and cutting back, and even in labeling the rows, that sort of thing, so we gave considerable time to that. [21]

Q. In that connection, Mr. Anderson, did you find that there were certain characteristics even in the nursery stock, in the leaves that made the identification of certain varieties possible?

A. We couldn't make it absolutely positive. We could eliminate a great many mixtures, probably, oh, somewhere about 75 per cent of the mixtures. Now, we haven't very many things to go on, be-

(Testimony of Frederic W. Anderson.)

cause, of course, we don't see the fruit or the flowers, but we do eliminate a great many.

Q. I don't want to go into that as yet. Then when you went into the actual agricultural business for yourself in Merced, what year was that?

A. 1932. Well, actually I bought the place in 1930, but I didn't actually move to Merced and spend all my time on it until 1932.

Q. Now, will you just give us your activities down to date in connection primarily with plant breeding and primarily in connection with nectarine varieties and the breeding of the various nectarine varieties?

A. Well, I should have mentioned in that connection that in 1924, I spent the summer at the New York station, and I was particularly—I went to the New York station because Dr. Hedrick was the outstanding authority on fruit at that time and they had perhaps the best collection of varieties in the country and I went particularly for the [22] study of fruit varieties; spent a little time both in New Jersey and in Vineland, Ontario, about a week in each place because they were doing the outstanding jobs of peach breeding at that time. And so I was greatly interested in nectarine breeding had urged them to also engage in nectarine breeding, which they did, they have since introduced varieties. But as soon as I went farming for myself, I was particularly interested in nectarines and immediately went forward with the breeding of nectarines, although the bulk of my

(Testimony of Frederic W. Anderson.)

time at that time had to be spent on orchards, because I had to make a living.

Q. Then as the years went on, you spent, I assume, more time in nectarine breeding?

A. Yes; at first it was just an avocation, my spare time I would spend at it. I didn't have too much time, I had to work, but as I acquired more land and more orchard, and had more money, I spent my surplus money on fruit breeding.

Q. And how large a ranch did you finally acquire, devoted to——

A. Well, my original purchase was 60 acres, but I now have slightly over 300 acres in orchard and the plant breeding operation.

Q. And in connection with your plant breeding work, how extensive was the employment of other people to assist you?

A. Well, in the beginning I had very little help except [23] during the blooming season; I would have the bulk of my crew, at least as many as I could spare from other work, do the emasculating and I myself would do the pollinizing of the blossoms. Gradually, as I had more time for that, I had more people do it, and now I have, well, six people that devote practically all their time to plant breeding, and, of course, in the blooming season we have, oh, 20 to 40 working at it.

Q. Now, what has been the extent of your experience in plant breeding as to nectarines?

A. Well, of course, nectarines was the primary job, and during the first period I confined it almost

(Testimony of Frederic W. Anderson.)

entirely to nectarines. Gradually I spread out to other things, but the bulk of my work is still with nectarines.

Q. And in that connection, will you state how many new varieties of nectarines you were successful in propagating?

A. Well, I have had patented 31—31 patents have been issued to me.

Q. And what percentage is that of nectarine patents that have been issued under the plant patent law?

A. Well, I don't know exactly but I don't think more than ten have been issued to all others combined. Of course, some have not been patented that have been introduced.

Q. The result of yours amount to approximately 75 per cent, or a little better. Now, what percentage of your patented [24] or the varieties that you have propagated and patented do they bear to the total amount of nectarines packed as of this time?

A. Well, of course, we didn't have exact figures until this past season, and then they began only on July 3rd, but from July 3rd to the end of the season I compiled the figures from the reports of the Nectarine Administrative Committee, and that showed that 87.8 per cent of those that were packed were varieties of my origination and patented by me.

Mr. Savage: I submit, your Honor, he has qualified as an expert. Do you desire to ask any questions?

(Testimony of Frederic W. Anderson.)

The Court: It is not my custom to pass in the middle on qualifications, because I do not allow the other side to examine, unless the question is raised.

Mr. Savage: All right.

The Court: I think you will find our method of conducting trials is entirely different from that obtaining in the Superior Court, although when I was a judge in the Superior Court, and I had the honor of being one for eight years, I conducted them in the same manner.

Mr. Savage: I only thought that I had——

The Court: Use your own judgment, and don't raise the point unless the other side raises it.

Mr. Savage: Thank you, sir.

The Court: If I desire additional qualifications I will ask. [25] You must bear in mind the Court may disregard entirely the opinion of experts.

Mr. Savage: I appreciate that.

The Court: And if you want to see my views on experts you have to go back to 1940, to an article which appeared in the American Bar Journal, and also in the Patent Quarterly where I wrote on using experts in patent cases, and every lawyer from New York here who has ever tried a case before me has familiarized himself with my views towards experts. I respect them when they give honest opinions. I don't let them tell me whether a thing is valid or whether it is infringed. When they become advocates I entirely disregard

(Testimony of Frederic W. Anderson.)

their testimony, no matter how competent they may be.

Mr. Savage: Thank you.

Q. Mr. Anderson, one of your nectarine patents which you secured out of those that you have mentioned was patent 974, was it not?

A. Yes; that is correct.

Q. I show you now the original of that patent. Is that the original patent as granted to you?

A. That is correct.

Mr. Savage: Counsel, it was attached to the copy of the complaint, a copy was. May this be marked as Plaintiff's exhibit?

The Court: Is that a copy? [26]

Mr. Savage: It is the original, your Honor. I would like to have the order that when the trial has been completed the original may be withdrawn.

The Court: You know, in these cases we don't do that. Is that a paper copy of it?

Mr. Savage: Yes; I have one. A copy is attached to the complaint.

The Court: Is that a loose copy?

Mr. Savage: Yes.

The Court: All right, I will receive it instead of the original, because you want that.

Mr. Savage: Any objection?

Mr. Griswold: Is that a certified copy?

The Court: The certified copy is here. I am asking him to produce a paper copy. The certified copy may remain here, but it will not be marked as an exhibit. In all these cases we don't take the original, and even in cases when there are many

(Testimony of Frederic W. Anderson.)

patents of which notice is given, it is agreed paper copies may be used.

Mr. Savage: Thank you.

The Court: Mark the paper copy as original, and keep the certified copy here and return it at the end of the case.

(The document referred to was marked as Plaintiff's Exhibit 1, and was received in evidence.)

Q. (By Mr. Savage): Mr. Anderson, in your work of propagating species, [27] do you engage in nursery raising and selling of your species of your nectarines?

A. No; we sell no nursery stock. Of course, we have to grow the varieties from seed, so we are constantly growing large numbers of seedling trees, but we do not sell any at all. We just sell varieties as such.

Mr. Savage: Now, I hand you herewith a document—gentlemen, have you seen this? (Handing to counsel.)

Q. Mr. Anderson, I will ask you preliminarily, in your plant patent, Plaintiff's Exhibit No. 1, I notice that there is no designation of the variety by name. Will you explain the Patent Office procedure in that regard, if you know?

A. Well, the Patent Office will not permit the submission of a name with the patent. They require a description but only by number and will not permit a name of any kind to be considered.

(Testimony of Frederic W. Anderson.)

Q. Did you give a name to the special variety of nectarine as set forth under that patent number?

A. Well, I suggested the name to the assignee, to the buyer of the patent.

Q. What was that name?

A. Sun Grand.

Q. Is that the name under which it has been used and sold, to your knowledge?

A. Yes; I think that is correct. [28]

The Court: Of course, you can't patent a name.

Mr. Savage: That is right.

The Court: If the patent is identified by name it becomes merely a matter of nomenclature, and unless you have registered a trade name either under state or federal law, it becomes immaterial in the trial of a lawsuit, because you are not infringing a name; you are infringing a plant or an operation, no matter what you call it.

Mr. Savage: I appreciate that, your Honor, but in view of the fact that all of us will prefer, instead of talking about a patent, to talk about Sun Grand.

Q. Sun Grand is the only name you have claimed to be covered by this patent?

A. That is correct.

The Court: All right.

Mr. Savage: Hereafter, when we speak of Sun Grand, we are speaking of the nectarine that was patented by this patent.

Q. One other thing, you say "we," you don't have any partners, you are an individual operator?

A. Yes, I am; no partners.

(Testimony of Frederic W. Anderson.)

Mr. Savage: We would like to offer in evidence this document dated August 18, 1948, which I have shown to counsel.

The Court: It may be received.

(The document referred to was marked as Plaintiff's Exhibit 2, and was received in evidence.) [29]

Q. (By Mr. Savage): That is your signature, and the signature of the Kim Nursery?

A. Yes.

Mr. Savage: And the companion document. I call the Court's attention to that assignment, there are two varieties mentioned in the one document, but there is no significance to the other variety. It will not be referred to. Sun Grand is the only one.

The Court: Just a minute. Gentlemen, I notice you are taking this from a deposition, and if any part of the deposition is later to be offered by anybody, I think in offering these you ought to identify this, because otherwise you are taking things from a deposition, which may create confusion.

Mr. Shepard: Your Honor, the deposition has photostats of that in it.

The Court: I see. All right.

Mr. Savage: That is identified, your Honor, but not left with the deposition.

The Court: I see. All right.

Q. (By Mr. Savage): This is your signature here, the formal assignment of the patent?

(Testimony of Frederic W. Anderson.)

A. Yes.

Mr. Savage: We offer this in evidence as [30]
Plaintiff's Exhibit No. 3.

The Court: It may be received.

(The document referred to was marked as
Plaintiff's Exhibit No. 3, and was received in
evidence.)

Mr. Savage: If the Court please, I think this
is the first contested case in connection with plant
propagation that we know, and one of the major
methods of making separate and distinct diagnosis
of the different varieties involved and propagation
and so forth, so I want to go into the method used,
and I will try to do so very briefly, in propagating
and the different qualities of those things, with this
expert witness.

Q. Mr. Anderson, will you please give to the
Court the method used in propagating the nec-
tarine? A. In originating new varieties?

Q. Yes.

A. Well, we start at blooming time, and, of
course, it depends on what we are wanting to get.
Perhaps I could do it better by explaining just how
a given variety was produced.

Q. Proceed to do that.

A. Well, in this case I would take the LeGrand
nectarine, and it covers the field pretty well, be-
cause I wanted to get—because to start with, I
was dissatisfied with all the old varieties of nec-
tarines we had; in fact, only four were commer-

(Testimony of Frederic W. Anderson.)

cially sold in California of all white flesh, and [31] all were relatively soft and did not carry well to the large markets of this country, although they were shipped in some quantities. So what I wanted to get was a larger, firm fleshed nectarine, and I thought that yellow flesh would be better than the white fleshed ones we had, because yellow fleshed peaches had been preferred by consumers to white fleshed ones. So with that in mind, I selected the largest commercial peach that I knew, the J. H. Hale, and also used the largest nectarine I knew, which was the Quetta. Now, the Quetta was white fleshed, and I wanted yellow, but the J. H. Hale is yellow fleshed peach. Now, I emasculated, that is, I took the petals and the stamens off the J. H. Hale peach flowers, we use the whole thing so we don't have too much chance of mixing, because all the flowers are pruned rather heavily so we wouldn't need to emasculate so many flowers and the percentage is better when the larger number of the flowers have been removed. Then we take the petals and the stamens off, the stamens are the male bearing, pollen bearing organs on the plant. In the case of the J. H. Hale that was not wholly necessary because the J. H. Hale is self sterile, or practically so, one of the few peaches that is. But, in any event, that is the way we did it, and that, of course, is the tedious part of it, is getting these blossoms off. And at the same time we gathered—no, I should say that we take these off just before the blossoms open, before [32] they open up so

(Testimony of Frederic W. Anderson.)

that bees have not visited them and have caused natural pollination; that is done to avoid natural pollination. At the same time we went to the other tree, in this tree the Quetta nectarine and got the pollen, we just rub off the antlers of those stamens, the antlers of the pollen-producing organs of flowers, and we put them in a thin layer on a plate overnight at room temperature and they will discharge, they will open and discharge their pollen during that time. The next morning we put them in a small vial or bottle, and then take them to the J. H. Hale tree and put the pollen on the pistil, and if conditions are right this pollen then germinates and the tube grows down through the style of the pistil of the J. H. Hale and unites with the ovum in the ovary of the J. H. Hale, and constitutes the act of fertilization, and we have that little ovary that then develops into the peach fruit. We let that ripen on all those peaches on that tree, they do the same thing with each flower; all those peaches that ripen on that tree, we take the seeds when they are ripe and keep them until the following winter and then plant them. Then, of course, we let them grow for whatever time it takes, usually three years before they bloom and bear fruit.

In this case, all those were peaches, although the pollen was nectarine pollen, the pistil apparently was J. H. Hale, and in this case pubescent fuzz on the peaches dominant over [33] the lack of pubescent fuzz on the nectarine, and all the progeny

(Testimony of Frederic W. Anderson.)

are peaches, then, without further crossing in this case, sometimes we back cross to either peach or nectarine, depending on which we want, but in this case, without back crossing, we planted the pits, several hundred of them—in fact, I think several thousand, some of them, of course, don't grow, and then allow them to come into bearing, and then when they come into bearing the Quetta pollen asserts itself, and it is of a recessive character, the nectarine character, and one-quarter, approximately, of all the progeny will bear nectarines, three-quarters will bear peaches. We were only interested in nectarines, so we threw away, destroyed the peach part of it and just kept the nectarine. In addition, white flesh is dominant over yellow flesh, so that also segregates out in Mendelian fashion, and three-quarters of those were white flesh and one-quarter yellow flesh. Now, I wasn't greatly interested in the white fleshed peaches—white fleshed nectarine, and unless they were unusually outstanding would destroy them and not carry them further. The yellow fleshed ones, the yellow fleshed nectarines we paid much more attention to, and usually, in this case, we did, we top worked several of them onto mature trees to try to determine which was the best of the group, and one of these was the LeGrand nectarine—was the variety that was later named LeGrand. [34]

Q. You used that same process in developing the Sun Grand nectarine?

A. Yes. There are some modifications in the

(Testimony of Frederic W. Anderson.)

Sun Grand procedure. It is essentially the same; the principles are the same, but there are some differences in results.

The Court: I think, gentlemen, we have gotten a good start, and this is a good stopping point, and we will stop with the witness at the present time. You may step down, Mr. Anderson.

I want to call attention to the section I had in mind, I didn't have the Code in front of me. I don't try to remember sections in the 50 Codes that we have, but the section I have in mind is 281, the one that requires notice—282 of Title 35, which relates to defenses. It says, "The following shall be defenses in any action involving the validity or infringement of a patent and shall be pleaded: (1) Noninfringement, absence of liability for infringement or unenforceability, (2) Invalidity of the patent or any claim in suit on any ground specified in part II of this title as a condition for patentability, (3) Invalidity of the patent or any claim in suit for failure to comply with any requirement of sections 112 or 251 of this title."

The defendants in this case have pleaded noninfringement through their denial. Then this paragraph:

"In actions involving the validity or infringement [35] of a patent the party asserting invalidity or noninfringement shall give notice in the pleadings or otherwise in writing to the adverse party at least thirty days before the trial, of the country, number, date,

(Testimony of Frederic W. Anderson.)

and name of the patentee of any patent, the title, date, and page numbers of any publication to be relied upon as anticipation of the patent in suit, or, except in actions in the United States Court of Claims, as showing the state of the art, and the name and address of any person who may be relied upon as the prior inventor or as having prior knowledge of or as having previously used or offered for sale the invention of the patent in suit. In the absence of such notice proof of the said matters may not be made at the trial except on such terms as the court requires.”

So that even there, where you plead invalidity and give notice, you have to give notice within thirty days, the court is permitted upon proper showing to relieve a person of failure to do so. But when you rely on noninfringement, on facts, you don't have to give any notice, except by just denying infringement. I merely point to the fact that this provision in the order is merely a voluntary agreement on the part of the parties, and if it stands in the way of proper presentation the Court may grant proper relief.

All right, 2:00 o'clock.

(Thereupon, at 12:05 recess taken until 2:00 p.m.) [36]

Afternoon Session—2:00 P.M.

The Court: All right, gentlemen, proceed.

FREDERIC W. ANDERSON

a witness for the plaintiff, resumed the stand and further testified as follows:

Mr. Savage: Will you read the last question, Miss Reporter, please?

(Record read.)

Direct Examination

(Continued)

By Mr. Savage:

Q. Will you explain those differences, if they are material to this case, in connection with identifying the Sun Grand and the Red King?

A. Well, so far as I know, there is no difference between Sun Grand and Red King. I have never seen any.

Q. All right. Then will you please give the method of identification of the Sun Grand, the descriptive method and why it is a special variety to itself. I am not now talking about the patent. I am talking about the specific things that are within your knowledge that identify the Sun Grand and differentiate it from the other nectarines.

A. Well, that is rather a tall order, because I would have to identify it as separate from every other nectarine in existence. [37]

Q. Go ahead, as far as you can.

A. I don't know just where to start.

(Testimony of Frederic W. Anderson.)

The Court: I think counsel has given you a broader—let me have the patent.

Mr. Savage: I will be very happy to withdraw the question.

The Court: Let's limit it to the patent, because you cannot claim more than the patent allows you.

Mr. Savage: I will withdraw the question.

The Court: All right.

Q. (By Mr. Savage): Will you please give the identification factors as expressed in your patent of the Sun Grand, emphasizing those factors which differentiate it from other varieties?

A. I have the Sun Grand, a copy of the Sun Grand patent here, and if I can follow that I probably can come a little closer to it.

Q. Thank you.

A. Well, of course, to start with, a variety bearing yellow flesh nectarine fruit has to be novel and have commercially desirable characteristics. I take it you aren't interested in those commercial characteristics, but want the points to identify it from the——

The Court: You are looking at your specifications?

The Witness: Yes.

The Court: The specifications cannot enlarge your grant. [38]

The Witness: Oh, yes; I see.

The Court: All that you were given is what you claimed here?

The Witness: Yes.

(Testimony of Frederic W. Anderson.)

The Court: Any description in there which is broader than the claim may be entirely disregarded. This is what you claim, right there, beinning “a new and distinct variety.”

The Witness: I understand.

The Court: And these may be resorted to merely as descriptive of what you claim. If the description is broader than your claim, the claim prevails. All right.

The Witness: Well, the claim reads, “A new and distinct variety of nectarine tree substantially as described and illustrated bearing yellow fleshed freestone fruit characterized by a ripening period between the white fleshed John Rivers and Grower varieties”—that was originally a typographical error in the Government Printing Office and it read “Grower” but is corrected to the proper spelling of “Grower”—“approximately two weeks earlier than the yellow fleshed Kim or Bim varieties; and approximately three weeks earlier than the yellow fleshed LeGrand variety; its firm flesh; its relatively larger size; and its superior shipping and eating qualities.”

Now, to start with the new and distinct variety as [39] described, it would be a tree that was originated in the manner described, and has the characteristics—the characteristics are given covering the points that are used in identifying one variety from another, and we first take those characteristics that there can be no reasonable grounds for dispute, that anyone would recognize.

(Testimony of Frederic W. Anderson.)

Those are called qualitative differences, and then we go to quantitative differences, which are, oh, size and shape and color and ripening period, and time of leaf fall, time of opening, and that sort of thing. Now, those things that there can be rarely any dispute, there may be a few borderline cases, but we will say can rarely be questioned start with the large division first between peaches and nectarines, and the division that is used by practically all classifiers is whether they have fuzz or don't have fuzz. If they have fuzz, pubescence is the technical term, if they have fuzz they are peaches. If they don't have fuzz they are nectarines. There are borderline cases there, too, but none that enter commercially.

Then the next thing a person looks at when he sees a nectarine—we have eliminated all the peaches—looking at a nectarine, is the color of the flesh. Now, there are three types of color of nectarine flesh, white, yellow and red. So this particular Sun Grand is yellow fleshed. Therefore, immediately you eliminate the white and the red [40] fleshed varieties, and when this variety was patented the only three yellow fleshed nectarines grown commercially were the three that I give there, LeGrand, Kim and Bim, they were all my originations. Prior to the time that I bred nectarines, the only commercial varieties grown in this state were white fleshed. We have already eliminated them just on that color of flesh difference.

Then to further identify a nectarine we take an-

(Testimony of Frederic W. Anderson.)

other thing, the leaves, which are very fundamental and very important. There are three types of leaves in nectarines, one has reniform glands. The glands are a little organ at the base on the petiole and on the blade of a leaf, little projections there that secrete substances that are of certain value, and the first type is the reniform gland type. Now, that gland is a kidney shaped gland, and when a tree has reniform glands you examine it and there may be a few difficult to see, some may not have any glands, but you can always be sure they are not the other type that has no glands, because of the secretion, and the second type known as eglandular, have a different edge, and the third type is the intermediate type, known as globose glands. Now, this is the one that is heterogenous, that is it carries passage for both acids and reniform glands. If you cross a reniform gland type by a variety that has no glands, all the progeny have globose glands, and this was exactly what was the [41] situation with the Sun Grand nectarine, as set forth in the patent. I crossed the July Alberta peach—well, I crossed the Kim nectarine which has no gland by the Kim July Alberta peach, which is a peach with reniform glands. All the progeny again, with the same process I described, all progeny are peaches, so that first generation were all peaches, but with this distinction, they were all yellow fleshed peaches. You may recall that in the other case they segregated out into three-quarters white and one-quarter yellow, but

(Testimony of Frederic W. Anderson.)

there was no factor for white, so in this case they were all yellow fleshed peaches, and then when I planted the pits of these yellow fleshed peaches, the progeny were all yellow fleshed. They segregated, the same in the other case, into the three peaches and one nectarine, three-quarters peaches and one-quarter nectarines, but in those cases all the peaches were yellow fleshed, all the nectarines were yellow fleshed, and also had the segregation there in the glands. Instead of all being reniform, where there was no factor for eglandular and no factor for globose in the lands but all reniform, in this case you have the segregation again, one-quarter of the progeny of this yellow fleshed—these yellow fleshed globose peaches had no glands at all, roughly one-quarter had reniform glands and one-half had globose glands. Now, in this second generation progeny, we had rather large numbers—again we were not [42] interested particularly in the peaches unless they were very outstanding and in this case they were—we eliminated the peaches entirely, and we eliminated the absence of glands entirely. Absence of glands is a serious disadvantage in either type of fruit in that they are more susceptible to mildew and other diseases. So that left us with the reniform and globose peaches, and one-quarter of them were reniform and half of them were globose and a quarter were eglandular, which we eliminated, but of these other three-quarters this Sun Grand was the outstanding variety, and we selected it at that point.

(Testimony of Frederic W. Anderson.)

Now, that covers the leaf situation. Flesh, leaf. The next thing perhaps we would come to would be——

Q. Just a moment. The Sun Grand had what kind of glands? A. Had globose glands.

Q. Go ahead.

A. And, of course—well, I think that covers that. Had globose glands, that is a round raised gland at the base of the leaf, at the base of the blade.

Q. That is shown in the original patent?

A. Yes.

Q. One, two and three?

A. Yes; the glands are shown in the drawing and also described in the variety described. [43]

Q. Proceed.

A. We have got pubescence, white and yellow flesh, leaf type. The next thing is flower type. Now, flower type segregates out in the same way. This was a cross between Kim nectarine and Kim July Alberta peach.

Q. What are the flower types?

A. I am just trying to put that in my mind now. The Kim nectarine has a large flower, the Kim July Alberta peach has a medium type flower, it apparently is a cross between large and small. They are usually classified medium as small. But in growing the progeny of the Kim July Alberta peach you will get large blossoms, medium blossoms and small blossoms; actually now the medium and small overlap, and is usually three small and

(Testimony of Frederic W. Anderson.)

one large, because it is difficult to discriminate between the two types there except by growing seedlings. But in this case, they varied in that first generation between the large and medium, and then growing those you get again large and medium size blossoms, but the ones we selected had the large blossoms. Now, you can always—there is no difficulty, no two ordinary individuals would disagree at all when you just use two divisions there, large and small, although actually and really there are in the small the two classes, the small and the medium, although they overlap so much that an ordinary individual can't tell, in fact an expert can't [44] tell except by growing progeny and then he can tell, because the small will give only small ones, the medium give all three types. But you have that thing, that two people can't disagree on the flowers, one being a large type and the other a small type. At least to that point there is no disagreement. So that is four things.

The next thing there can be at least—seldom there can be disagreement, and that is clingstone and freestone. That is obvious, I think, when the flesh clings to the stone it is a clingstone and when the flesh is free from the stone at ripening time, it is a freestone. Now, there are borderline cases there that could at times cause dispute, but I think there can be no question about the Sun Grand. I have never seen one at full ripening period that was not entirely freestone.

A sixth point is the red color at the pit, or the

(Testimony of Frederic W. Anderson.)

absence of color. Now, as it happens, on my own varieties that I have had patented nearly all of them have red at the pit. I think there is only one exception that I think of offhand, the Gold Nugget has no color at the pit. With peaches, which operate the same way in this connection, there are a great many without color at the pit because the canners dislike color at the pit, and as a result nearly all of our cling peaches lack color at the pit. Some of them will have some color, but most of them have little or none. [45] Now, that is six.

Those are the ones that are used largely, and I think—no; there is one other I use here. There are two types of flowers, in addition to large and small size; one has stamens that are red—stamens with antlers on the ends that are red and are invariably self-sterile. The other type, like the J. H. Hale peach, that has yellow antlers and when they first open the pollen is non-existent or fails to germinate, and you can tell those apart just as the flowers open and before the antlers have dehisce, just on color alone. It is a little more difficult, there might be argument about it unless people are—that know what flowers are about, because after they open then the red ones they also look yellow, but you can tell, and we do in our own work, before we ever see the fruit, as soon as we find a variety, and we just send ordinary workingmen, don't know who it was, and they cut out the ones that are self-sterile and we don't need to bring them to bearing, to develop that variety further.

(Testimony of Frederic W. Anderson.)

Now there is one more point, that is qualitative.

Q. Is there anything about the patent of the Red Grand that has to do with the kernel?

A. Of Red Grand?

Q. No; I mean the Sun Grand.

A. The Sun Grand, yes. This is another one that has [46] not been used by classifiers, so far as I know, but we do in our own work, and it is a qualitative difference. They have never been used because, I think, it hasn't been generally recognized that there are certain peaches and nectarines with sweet kernels, and four of the 31 that I have patented do have sweet kernels, so we always break open the pit and take the kernels and see whether they are bitter.

Q. What was the nature of the Sun Grand?

A. The Sun Grand has a bitter kernel.

Q. Now, as to these qualifications, does like beget like in propagation? Do they stay constant?

A. I don't think I quite follow the question.

Q. You have given differences in creation. Now, when you come to asexual propagation, let us say, do those same peaches that you have described, the Sun Grand, do they stay constant——

A. Oh, you mean bud and graft?

Q. Yes.

A. Oh, yes. The whole fruit industry is built on the premise that they do stay constant, the whole nursery industry is built on that. When you bud an Alberta peach, or graft an Alberta peach, and that grows you know that it is going to be all

(Testimony of Frederic W. Anderson.)

Alberta peaches. The whole 500,000 clingstone peaches that are grown, when they belong to [47] those varieties they are all clingstone, there are no freestone. If they have reniform glands, they maintain reniform glands. It is just an extension of the original variety. It is really the same plant, except grown in a different environment.

Q. And the Sun Grand has what kind of a pit?

A. The Sun Grand has a freestone.

Q. And those pit types don't vary by asexual propagation?

A. By asexual propagation it is the same freestone; of course, the pits vary in size and color and that sort of thing, shape.

Q. But not in bitter and sweet?

A. No; they do not.

Q. What other distinguishing qualities, again limiting it to your patent, of identification are there to your Sun Grand nectarine?

A. Well, of course, where they ask for size, for instance, size of fruit, and we give a size, that doesn't mean that every fruit is that size, the same as all fruit on a given tree, there will be fruit that is large, fruit that is medium and fruit that is small, and we give a size, we give an average size for fruit, and, of course, that—there are so many of these qualitative differences, when you give size of leaves or fruit, or tree, or any other organ of the plant, they are extremely variable, and we [48] just give average size. That same thing applies to shape and to form, and to most of these other

(Testimony of Frederic W. Anderson.)

things. I have given the qualitative differences. These are known as quantitative differences, and although they are of some importance, any two people can argue about them at great length; some claim that an Alberta is bigger than a J. H. Hale, and another, vice versa, but we only can go on averages and that is, of course, all we claim.

Q. Now, what about the ripening time of this Sun Grand nectarine?

A. Well, Sun Grand—the ripening time again is one of those variables. It varies greatly from season to season, and the way we usually handle that ripening time is to give ripening time in relation to other well-known varieties. The usual way in this country is to use Albertas as the standard, and then say so many days before or after Albertas. We have no such standard in nectarines, and I think I use LeGrand—I used LeGrand and Kim and Bim, and told the relative ripening period with those three because they were the only three that were—the only three yellow flesh varieties that were grown commercially.

Q. When you set that out, what is the ripening time of the Sun Grand?

A. Well, as I said, that varies a little from year to year, too, but roughly, I said—I don't see it—oh, [49] yes, it is in the claim itself, approximately two weeks earlier than the yellow fleshed Kim and Bim—the Kim and Bim ripen essentially together—approximately two weeks earlier than the yellow fleshed Kim and Bim, and approximately three

(Testimony of Frederic W. Anderson.)

weeks earlier than the yellow fleshed LeGrand. We have to use that word "approximately" because it is difficult to determine just exactly when any fruit is ripe. We think—I think in this—in most of the patents, at least, have it when they are eating ripe. No, this is color ripe, is the way I described it here, and then you would have to compare it with the same stage of ripening with the variety you compare them with. LeGrand, of course, is a cling, and it is a little difficult to know just when to set the same period of ripening. I said three weeks earlier than the LeGrand, and approximately two weeks earlier than the Kim or Bim. Kim and Bim are approximately the same.

Q. What date of the calendar months?

A. You can hardly judge, although we did that particular year, I listed this as ripening on July 5th, hard ripe on July 5th, yet that varies from orchard to orchard and varies from season to season. I can remember picking Albertas one year many years ago on June 28th. I admit we picked them very green in those days, but I have picked them—started to pick them, I mean, as late as August 5th, so you see you are getting into a very variable thing that [50] you can't be definite on, it isn't like the characteristics I went into first.

Q. I don't think I want to go into the other secondary means of identification that are not as reliable as those you said were qualitative, but they are all specified in the patent, the items there with reference to flavor and firmness and fibers and

(Testimony of Frederic W. Anderson.)

aroma and eating qualities, and so forth. They are correctly described in the patent, are they?

A. Yes; that is correct.

Q. By the way, I didn't ask you this: On Plaintiff's Exhibit No. 3, there is a specification of you being paid \$500 a year for the transfer of that patent by Kim Brothers? Do you have any other financial interest or do you have any financial interest in the outcome of this case, where you would get a money reward?

A. No. Regardless of the outcome of the case I get exactly \$500 a year for the rest of the life of the patent.

Q. All right. Now, have you seen the controversial type of nectarine, which we will call Red Grand?

The Court: He hasn't called it. We have a better term than that, the accused. We call it the accused device in patent, and we call it the accused plant.

Q. (By Mr. Savage): Have you ever observed the accused variety of nectarine, which is the subject of this suit, as being a [51] patent infringement? A. Yes.

Q. Where did you see that variety?

A. Well, I saw it on Mr. Hagler's ranch both in 1957 and 1958.

Q. And will you state approximately what time? Take the first trip in 1957?

A. I wouldn't remember the date, but I do know

(Testimony of Frederic W. Anderson.)

that they were harvesting the LeGrands, which probably was in late July.

Q. And did anyone go with you?

Mr. Shepard: What year?

Q. (By Mr. Savage): 1957 I am referring to.

A. Yes.

Q. Did anyone go with you?

A. Yes; there was quite a large group.

Q. Who were they?

A. Well, if I remember correctly, there was Mr. Kim and Mr. Stafford, his nursery manager; Mr. Butler, his orchard superintendent, and I took with me two of my plant breeder associates, Mr. Taylor and Mr. Zaiger, and there was a fruit packer, Mr. Casabian, I think his name was.

Q. And what was the occasion of your going down there, Mr. Anderson? [52]

A. Well, I had seen an auction report from the east. I was watching the auction reports closely because I was interested in the Sun Grand and Early LeGrands, my varieties which ripen at the same time, and at the same time a Red King began to appear. There were certain other varieties, too, but the other varieties were all varieties that I knew or varieties that were bringing very much lower prices and caused no suspicion, but as soon as I saw a variety that was selling somewhere in the same price range, somewhat lower but not greatly lower, I wondered if it was just a new name for something. We had had infringements before, and I decided that we had better investi-

(Testimony of Frederic W. Anderson.)

gate and see what this Red King is, so as a result of that we went down to the Hagler place and examined it. He had trouble with other infringements, so——

Q. Now, where did you go on the Hagler place? First of all, I will ask you, did you see Mr. Hagler?

A. We didn't see Mr. Hagler on that trip, no.

Q. Where did you go with reference to the Hagler ranch?

A. Oh, it would be hard for me to explain. We went to the ranch, and Mr. Kim had previously located this block; in fact, there had been arguments about it for two or three years.

The Court: Let me give you a warning. You are too much of an advocate. You are not a lawyer. Just quit throwing in that you had had trouble with this or that, because that [53] is an argument, and I pay no attention to argument by laymen. We are very jealous of the lawyer's prerogative to argue a case, and I don't allow witnesses, no matter how educated and how much interested to argue. You are a very interested witness because it is your patent.

The Witness: Yes.

The Court: So any such things thrown in, you do it deliberately, you have done it ever since you have been on the stand. It is characteristic of the man who tries to defend his own invention. So please omit any such side remarks. Just state factually where you went and what you saw, please.

The Witness: I will try.

(Testimony of Frederic W. Anderson.)

The Court: Well, if you don't, I will stop you. If you don't stop, there are other means of stopping you, you see.

Q. (By Mr. Savage): All right. What did you see at the Hagler ranch? I am not talking about what any of the other people that were with you saw, but what did you see?

A. Well, where we stopped, I don't know just how to get at this.

The Court: Describe factually what you saw. You saw a tree, you saw fruit, you examined the fruit. You haven't forgotten your English, you were taught the narrative method. Describe objectively what you saw, not subjectively. What [54] did you see when you examined the tree?

The Witness: Well, the first stop we made, and got out, the tree to me——

The Court: I know what you are going to say, and it is not proper. Not how it looks to you at all, just describe them so that I can tell whether they are the same or not. Tell what size they were, what color, whether you took the fruit, opened it, looked inside, and what you saw. Don't tell me that they looked like yours, because that is my province and I don't allow even an outside expert to invade that province, you see. Don't tell whether they looked like yours or not, tell how they looked and I will determine whether they looked like yours. If you can't describe because you are interested, they can withdraw you and put on a disinterested person who can describe them.

(Testimony of Frederic W. Anderson.)

The Witness: Well, to describe the tree that I saw—maybe I can——

The Court: I will help you. You have given certain characteristics. You cannot give characteristics as to size, desirability, those are subjective.

The Witness: I understand that.

The Court: Describe it in the term of the six characteristics that you gave.

The Witness: Oh, I see. I can do that.

The Court: Compare them in that manner. [55]

The Witness: Yes; I think I can.

The Court: You talked about the yellow flesh, how the trees look, how the leaves look, as compared with your photograph here?

The Witness: Yes; I think I can do that.

The Court: That's right.

The Witness: Well, the orchard that we stopped at, the trees, we looked at the trees, and, of course, I looked at the—well, all parts that would give these qualitative differences, and among those, of course, you start with the fruit naturally, and the fruit was yellow fleshed; it was freestone, and on qualitative differences there would be those two qualitative differences on fruit. Then I examined the leaves and there are three types of leaves I described, and this had globose glands. Of course, obviously the first difference was it was a nectarine, it didn't have fuzz so it was a nectarine. That was four. Another qualitative difference, the color around the pit was red, was five; and, of course, there were no blossoms at that time so I couldn't

(Testimony of Frederic W. Anderson.)

tell what the blossoms were. I couldn't tell the color of the antlers. Now, there was an eighth one, let's see. I have forgotten what that eighth qualitative difference is.

Q. (By Mr. Savage): May I be pardoned for leading? What was the [56] condition of the pit?

A. Oh, the pit was a freestone. I think I mentioned that, however.

Q. As to the kernel?

A. Oh, the kernel was bitter. I forgot the kernel. I knew there was one. That were all the qualitative differences. In fact, those are the only qualitative differences I know of. Of course, the quantitative differences I don't think it would be necessary to go into, because they are so variable unless there are some that should be used.

Q. I will ask you about some of the quantitative ones. What about the shape? Was there fruit on the trees at that time?

A. Yes; the fruit had been harvested, but there was some left on the trees and it was a very firm fleshed nectarine, of good size, probably—these on the underside of the tree were not as large perhaps as the regular picking, I think they had been left because they were too small, but they grow—when they are very firm they grow for a considerable time, and they were still good firm nectarines, but I think smaller probably than the average ones that had been on the trees earlier. The flavor, they were good eating nectarines, and that sort of thing.

Q. May I ask you this, as to all of those qualita-

(Testimony of Frederic W. Anderson.)

tive conditions that you say and describe and differentiate the [57] Sun Grand nectarine as patented, were all those conditions met by the fruit on the tree that you saw?

A. Yes; that is correct.

Q. Now, how many trees did you see there? I think that is in the pleadings, they admit to 1,700 some odd trees. We don't need to go into it, of this variety. Did you see a substantial number of trees, Mr. Anderson?

The Court: We don't need to go into that, it merely shows the extent of infringement, if there is any.

Q. (By Mr. Savage): Mr. Anderson, did you go down to the Hagler place after 1957?

A. Yes; this season, this past season, July—I believe it was July 10, 1958.

Q. And did you go with anybody then?

A. Yes; I went with you, Mr. Savage, to Mr. Hagler's place, and then Mr. Hagler and Mr. Houk accompanied us around to show us the trees.

Q. Did you see the Hagler trees on that trip, the same ones you had seen on the previous year?

A. Yes, essentially the same trees, at least they were in the same block.

Q. And were the qualitative descriptions you have given—was there fruit on the trees?

A. Yes; they had kept one tree in one block that they [58] hadn't picked so that we could get the fruit from it. The fruit had been largely picked, they were going to make another picking on that

(Testimony of Frederic W. Anderson.)

particular block. On the next block it was a little bit difficult to find fruit, although Mr. Hagler said they would make another picking.

Q. Did you examine more than one block of trees on this trip?

A. The same two blocks.

Q. Now, did you take any samples the first trip you went down? A. No; I did not.

Q. Did you take any samples of the fruit on the second trip?

A. Yes; that was the purpose of the trip, to get samples.

Q. Where are those samples?

A. Well, they decayed. We hoped to have them at the time of the trial. We were able to keep them until the date scheduled then, September something, but they are gone now.

Q. Do you have any of the pits left?

A. Yes; we kept the pits.

Q. The flesh is deteriorated. At that time was there any conversation with Mr. Hagler with reference to the issue here of whether there was an infringement or not? A. No. [59]

Mr. Griswold: May I have that last question and answer?

(Record read.)

Mr. Griswold: All the attorneys were present.

The Court: It doesn't mean anything.

Mr. Savage: We didn't discuss it, that is all there is to it.

(Testimony of Frederic W. Anderson.)

The Court: All right.

Q. (By Mr. Savage): What did you do with some of the samples you took on the last trip, in '58? Did you give them to anybody? Or did you keep them yourself?

A. We went by Reedley, and stopped at the office there, and—Mr. Kim's office, Reedley Nursery office, and then we took them on home and stored them in the basement of Mr. Taylor's house, where we have a, oh, a cool storage for keeping our own fruit, and we kept them there.

Q. Mr. Taylor had access to them?

A. Yes; at all times.

Q. Were they kept in separate boxes, or in a separate box, so they could be identified?

A. Yes; we could identify them.

Q. And you and Mr. Taylor could both identify them? A. Yes.

Mr. Savage: You may cross-examine.

The Court: We will take a short recess, because I do not [60] like to break the continuity of cross-examination, I always take a recess.

However, there is one thing I forgot to do, gentlemen, and that is to ask you gentlemen to dismiss as to all the fictitious defendants. Apparently nobody has been served except Mr. Hagler and Mrs. Hagler.

Mr. Savage: We do now ask the Court to dismiss.

The Court: All right, the Court dismisses all

(Testimony of Frederic W. Anderson.)

fictitious defendants, Does I, II and III and Sally Soe—that's a new one.

Mr. Griswold: I would like to also call to the Court's attention the fact that Mrs. L. A. Hagler has passed away, so it leaves the sole defendant, L. A. Hagler.

The Court: Well, I think that should be called attention to, because if she has an interest in the property, then her executor should be made a party to the action.

Mr. Savage: We didn't know that, your Honor.

Mr. Griswold: If the Court please, the property is all community property, and under the Probate Code, Section whatever it is, the husband acquired it all.

Mr. Savage: May we ask one further question, counsel? Is Mr. Hagler the executor?

Mr. Griswold: There will be no estate because the California Probate Code section, I believe that is Section 40, provides where it is community [61] property——

The Court: Community property, it belongs—the words they use is, it belongs to the survivor; all he has to do is to file a certificate of death, and it automatically goes to him.

Mr. Savage: That has been done?

Mr. Griswold: Yes, it has been filed.

The Court: I think then it should be dismissed as to her, too. The only object in keeping her, while under the code the husband has the management of the community property and therefore if he is

(Testimony of Frederic W. Anderson.)

guilty of a tort, which the infringement is, the community property may be subjected to any levy or attachment. This is not an action in rem. There is no object in maintaining her. When you are pursuing separate property sometimes it is well to retain the wife, merely for the purpose of having execution, but this is merely an action in money damages, just as though he were charged with injuring a person, and making the wife a defendant wouldn't add anything to the case.

Incidentally, I had that question in a case involving misappropriation of money by an employee. Get me 121 Fed Supp. 345, so long as you brought that up.

Mr. Savage: If the Court please, upon direct representation of counsel for Mr. Hagler, and who were attorneys for Mrs. Hagler, that the estate has by proper proceeding been declared to be all the property of Mr. Hagler, we will [62] move, and join in the motion in dismissing as to Mrs. Hagler.

The Court: Before I pass on the motion I want to call your attention to a case which I cite in there, because that question arose. You may step down.

I want to call attention to this. While I made the suggestion, I don't want counsel to do anything that would jeopardize anybody's right. This particular case I am speaking of, the opinion is Goodrich vs. Naples, and that was a tort, brought by the Goodrich Company against an employee who received kickbacks, which of course some people consider legitimate practice but which the law frowns upon

(Testimony of Frederic W. Anderson.)

as being an act of fraud on the employer. The truth of the matter was this man was being paid by suppliers, who are always willing to pay a little graft in order to get an advantage, although they are not usually punished. And he received a kickback on every contract that he made with them for supplies for Goodrich, and he claimed that he did work in his spare time and so did the men who paid him the money. I found that they all lied and this was just paid as a kickback and gave judgment for some \$49,000. As the property had been transferred to the wife, in order to make the judgment good against her, I allowed the judgment to run against her only to that extent, but in discussing the matter I called attention to the fact that under the law of California she could not be held personally liable because [63] she did not participate in the fraud. And in that case I said "The judgment against Naples shall run jointly also against his wife. But this only to the extent that the plaintiff shall be able to pursue any community property which Julia Naples may have, including the sums derived from these transactions, wherever deposited * * * She should be retained in the case in order to enable the plaintiff to levy, without legal complications on any community property standing in Julia Naples' name. There is no evidence that she participated in her husband's tort." And then I said, "The husband, under his power to manage the community property, may bind it by acts which amount to fraud or deceit," citing

(Testimony of Frederic W. Anderson.)

California Civil Code, Sections 172 and 172a. "To this extent, the rule of agency applies, which holds the principal through notice to the agent." California Civil Code 2332. "But the cases in which the wife was held personally liable were torts involving real property or interests in such property, in which the fraudulent representations of the husband were held binding on the wife because she had participated in consummating the transactions or retained real property secured in exchange." Then on footnote 20 I cite a large group of cases, mostly in relation to property where the plaintiff had parted with property and the wife had participated in the act, or the property was put in her name.

The important thing I cite is *Grolemund vs. Caferata*, [64] as I pronounce it in the Italian way, 17 Cal. 2d 679. This involved the question whether community property could be subjected to satisfaction of judgment against the husband for his tort, and it is a very long opinion, written by Judge Curtis. I will skip the discussion and merely read the conclusion. I think the conclusion is contained on page 688:

"A complete reading of all our code sections on community property clearly demonstrates that our community system is based upon the principle that all debts which are not specifically made the obligation of the wife are grouped together as the obligations of the husband and the community property (with the single exception of the wife's earnings, which are exempted from certain types of debt, Civ.

(Testimony of Frederic W. Anderson.)

Code, Sec. 168). This proposition was confirmed in *Street vs. Bertolone*, 193 Cal. 751 * * * 'The term "the debts of the husband," unless otherwise qualified, includes debts incurred by the husband for the benefit of the community as well as his own separate debts.' Since in this state there is strictly no such thing as 'community debts' in the sense in which they exist in Washington, the decisions of the latter state lose force as a precedent here.'

In other words, they were citing some Washington cases where it was held the community property was not held liable on a tort of the husband. In this case they had a judgment [65] against the husband for personal injuries of an automobile collision, where the defendant in that case was adjudged to be liable. Then the action was brought to secure an injunction against the officers of the San Mateo County and the the sheriff of San Mateo County and the sheriff of the City and County of San Francisco, to enjoin them from levying on the community property. So the question before the court was clearly whether the community property can be subjected to the payment of a judgment for a tort committed by the husband, and the court held that it could, despite the fact that the wife was not made a party to the action in which the recovery was had.

So you see, under this case, you don't need the defendant's wife at all as a defendant, because should you get a judgment the community property levy could be directed against the community property because it would be a money judgment.

(Testimony of Frederic W. Anderson.)

Mr. Savage: We appreciate the clear manner in which the Court has explained it, so we join now with Mr. Hagler and his counsel in the motion for dismissal against Mrs. Hagler.

The Court: All right, the action will be dismissed against Mrs. Hagler, and against the fictitious defendants, and it will proceed solely against Mr. Hagler.

Now, we will take a short recess. [66]

(A short recess was taken.)

The Court: All right, Mr. Anderson, will you resume the stand?

Cross-Examination

By Mr. Griswold:

Q. Mr. Anderson, you state you visited the Hagler ranch in 1957 for the first time?

A. Pardon?

Q. Is it true you visited the Hagler ranch the first time in 1957?

Mr. Shepard: Your Honor, we object to the question as misstating the evidence. He said he went there in 1957, he did not say it was the first time.

The Court: All right, that is proper cross-examination. Go ahead.

Q. (By Mr. Griswold): You had been near Mr. Hagler's ranch at earlier dates, had you not?

A. Oh, yes, many times.

Mr. Shepard: One further objection, your

(Testimony of Frederic W. Anderson.)

Honor. We object to the question and move it be stricken as exceeding the scope of the direct examination.

The Court: The objection is overruled, because it is the rule of this Court, even in criminal cases, that a person cannot merely by limiting the scope of the examination skip [67] over dates and then prevent cross-examination.

Mr. Shepard: We don't want to prevent cross-examination. The purpose of my objection was in good faith, because I feel what the counsel is going into now is part of his case, and we didn't want to offer it as part of our case.

The Court: Well, that is all right. He has the right if he can bring out by proper cross-examination facts which are favorable to him to do so. I am just as strict as anyone. In fact, in a case we tried here three or four weeks ago, we had a malpractice case, and we had a United States Attorney who sought to unduly cross-examine the plaintiff, who claimed to have been injured by malpractice, over matters that were not proper and I stopped him and I told him that he could call back the witness under 43(b) later on, but that of course doesn't prevent proper cross-examination by the attorney dealing with the entire relationship between the defendant and the witness. Of course, anything that is brought out that is favorable can only be considered in determining the case on the merits, because so far as the plaintiff's case is concerned if you produce a prima facie case any admissions by this witness or

(Testimony of Frederic W. Anderson.)

by others that are favorable to the defendant could not be considered on any motion to dismiss that the defendant might make, if they should make one. But cross-examination may be indulged in going beyond a strict date line, where the [68] purpose is to show the relationship between the witness and the defendant. All right. Proceed.

Q. (By Mr. Griswold): You have been to the Hagler ranch many times, before 1957?

A. Several times I should say, yes.

Q. And had you ever gone there in the company of Mr. Kim before 1957? A. Yes.

Q. And am I correct that that was in 1954?

A. Yes, I recall one instance in 1954.

Q. Who did you go with, and what season of the year, if you remember?

A. It was when they were harvesting. In '54, the time I remember being there, they were harvesting LeGrands, which would have been probably late July.

Q. And who was with you?

A. Mr. Kim and Mr. Stafford.

Q. Which Mr. Kim?

A. Mr. Hyeng S. Kim.

Q. And Mr. Stafford's first name?

A. Howard Stafford, the nursery manager, I believe.

Q. Anyone else? A. I think not.

Q. And the purpose of that visit? [69]

A. It was an identification visit also, to try to identify a variety.

(Testimony of Frederic W. Anderson.)

Q. What variety?

A. Well, it seems—I am trying to avoid this thing.

Q. Just tell me what variety?

A. It was no variety named. It seemed that Mr. Hagler had brought a variety to Mr. Kim, that he wanted identified and Mr. Kim asked me to come down and see it on the tree. He brought one fruit over to Mr. Kim, I believe.

Q. And that was in 1954?

A. That was in 1954, yes.

Q. Were you present when Mr. Hagler brought it to Mr. Kim to be identified?

A. No, I was not.

Q. And where did you get your information of that visit by Mr. Hagler to Mr. Kim to identify this fruit?

A. Well, Mr. Kim always called me when there was a matter of identification on my varieties.

Q. And was this variety to be identified a nectarine? A. Yes.

Q. So you did then in 1954, some time during the LeGrand harvest, go to Mr. Hagler's ranch?

A. That is correct.

Q. What did you do there?

A. Well, we were looking for Mr. Hagler on that [70] particular occasion.

Q. Did you find him? A. No we did not.

Q. What did you do with regard to any inspection of trees or fruit on that occasion? Any trees or fruit?

(Testimony of Frederic W. Anderson.)

Mr. Shepard: Just a moment. I will object to it unless it is limited to the Hagler ranch.

The Court: I beg your pardon?

Mr. Shepard: I will object unless we are referring to the inspection of trees and fruit on the Hagler ranch.

The Court: That is what he is talking about, a visit to the ranch, the defendant's property. Go ahead.

A. Well, on the Hagler ranch we investigated some fruit.

Q. (By Mr. Griswold): Are you acquainted with the Hunter ranch?

A. We visited the Hunter ranch.

The Court: Is that operated by Mr. Hagler too?

Mr. Griswold: Yes, at this time I believe the testimony will be.

Mr. Shepard: Now, just a moment. I want the Court to understand when I object I don't do it for trivial effect. They have a certain strategy of their case I know they want to present. We leave that to them, but our case is along positive affirmative lines, and we don't feel this is part of the direct examination. Mr. Hunter so far has not been [71] shown so far to be a part of the case at all, there is no evidence at all about him.

The Court: Well, we are going to find out.

Mr. Shepard: I object on that ground anyhow.

The Court: The objection will be overruled.

Q. (By Mr. Griswold): Am I correct that Mr.

(Testimony of Frederic W. Anderson.)

Hunter's ranch is in close proximity to that of Mr. Hagler?

A. Yes, across the road, to the east, I believe.

Q. And on this occasion in 1954 tell us what you did, as far as inspecting any trees or fruit on the Hunter ranch?

A. Well, we inspected two trees, which I identified as Sun Grand.

Q. Can you locate those trees verbally in the orchard? I assume you were in an orchard?

A. Yes, we were in an orchard. It is a little difficult after this time to do that.

The Court: Well, if you do not remember any more definitely what you did, you may say so, and then counsel will have to proceed with the next question.

The Witness: I remember definitely, if I can give that—I think I remember definitely. We were looking for Mr. Hagler, we stopped the car to Mr. Hunter's house. First, they told us at the packing house that Mr. Hagler was picking at Mr. Hunter's place, and so we went over there [72] really looking for Mr. Hagler, but we went to Mr. Hunter's house first and Mr. Hunter wasn't there, and we walked out towards the LeGrand block where they were picking, and on the way we found two trees that—well, one of them I identified positively as Sun Grand, and the other had no fruit on it and I wasn't absolutely positive, but from the other characteristics I thought it was Sun Grand. Now, we had not found at that time either Mr. Hagler or Mr. Hunter,

(Testimony of Frederic W. Anderson.)

and so we proceeded out, going direct from the car, in other words, to where they were picking, and Mr. Hunter came from where they were picking and met us and that was the first time I had been on the place and——

Mr. Shepard: Now, just a moment. I want to caution my witness that is as far as the question goes. You described what trees you saw, and when you describe further trees you are getting on a different subject.

Q. (By Mr. Griswold): At that time you did identify two trees as being what you call Sun Grand, or plant patent 974?

A. I identified one tree positively, and the other I thought was, I wasn't certain because there was no fruit.

Q. Is it your testimony that without the fruit you are unable to make a positive identification?

A. To make an absolutely positive identification without fruit, I cannot do. [73]

Q. Do you know as a fact that all of the trees in the orchard, except one which is the root stock or the original Red King tree, are LeGrand nectarines? Do you know that for a fact?

A. No, I do not.

Q. I am not asking you to say that the tree, the parent tree, is Red King or otherwise. But did you know then or later that all the rest of the trees were LeGrand nectarines?

A. No, I don't know that. I don't know what is

(Testimony of Frederic W. Anderson.)

on the place. We only saw a very limited part of the place.

Q. How many fruit did you take off this parent tree? A. Well, we didn't—

Q. On this occasion in 1954?

The Court: If any? You are assuming he did.

Mr. Griswold: If any.

Mr. Shepard: Object to the use of the word "parent tree" as coming out of nowhere and being counsel's way of describing something that hasn't been brought up at all.

The Court: Pair of trees he identified. Two trees that he could identify, one positively and one he didn't.

Mr. Shepard: I don't think that is what he means, your Honor. Pardon me for saying so, that is why I object.

The Court: I assume that is what he means. P-a-i-r, isn't it?

Mr. Griswold: Parent, p-a-r-e-n-t, or the original tree. [74]

The Court: Parent, oh, I am sorry. Parent tree. Go ahead.

Q. (By Mr. Griswold): This tree in 1954 that you say you positively identified as a Sun Grand, or plant patent 974, did you observe any fruits on that tree?

A. On the one I positively identified, yes.

Q. How many?

A. There were only a few, growing on the un-

(Testimony of Frederic W. Anderson.)

derside, the shady part of the tree, that apparently had been left in harvesting.

Q. Did you pick them personally?

A. I think I picked at least one or two of them. There were only, I would say, half a dozen, something like that.

Q. Now, referring to exhibit—I believe the copy of the patent is Exhibit 3, is it?

Mr. Shepard: Exhibit 1.

Q. (By Mr. Griswold): Exhibit 1, will you direct your attention to your plant patent 974, and I direct you to figure 1, and ask you if that coloration that you observe there is representative of the plant patent 974?

A. Well, it is certainly representative. It is apparently one that was picked at the hard ripe stage that I described. This was sent to Mr. Addison E. Avery, whose [75] name is down in the corner, in Oak Park, Illinois, and was probably picked fairly firm, so at this stage of ripening I think that is a fair representation of the color. I don't recall just when I sent them, but I sent him leaves and fruit; and usually in most cases I just send two, but in some cases I send more. I don't remember in this case whether I sent more or not, and then he made the drawings and the coloration, of course.

Q. Now, am I correct that there are methods to determine colors according to certain classifications and standards?

A. Well, I know very little about it, but there are color classifications based on color standards.

(Testimony of Frederic W. Anderson.)

I think he says he used one of those books, I am not sure, Ridgeway Standards, but I don't see it here, but that is the one I think he normally uses.

Q. What I am getting at is, if we are speaking about a comparison of, we will say, yellow flesh, we want some standard to go by, and if we say round, or more round, we want to know what we are referring to. What is the comparison? Now, is there any standard for your coloration in plant patent 974?

A. Well, they use standards; there are various standard colors, and they follow one of those books. Oh, I said Ridgeway; I believe it is Maerz & Paul, I am not sure. [76] Doesn't it say somewhere here?

Q. Can you show me that in your plant patent 974?

The Court: There is no such indication as to what color is given.

The Witness: Then I wouldn't know, other than this man Avery usually uses a certain one, and I think it is Maerz & Paul. I said Ridgeway a minute ago, so I am not sure.

Q. (By Mr. Griswold): Mr. Anderson, we are talking about your patent plant 974. A. Yes.

Q. Am I not correct that the better practice of designation of coloration is by some reference to the charts that are in use by plant identifiers?

A. Yes, I think, and normally they put that down. I don't know why it wasn't here. I thought it was.

Q. I will ask you again, I don't believe you an-

(Testimony of Frederic W. Anderson.)

swered my question, is this photograph showing the side view and cross-section a true representation of the color of your plant patent No. 974?

A. Well, I don't know much about colors because they are so variable depending on——

The Court: Well, you—— [77]

A. It looks all right to me.

The Court: When an attempt is made to reproduce color photographically, if this were black as it appears on the photograph, you see, you couldn't tell what color they are, but you can tell the appearance, and you may testify on cross-examination whether in your opinion these approximate the natural color, assuming that natural color can be reproduced in all its nuances by photography.

The Witness: Actually these are paintings and not photographs.

The Court: Well, all right.

The Witness: Yes, I think that for that period of ripening that they are accurate reproductions.

The Court: All right.

Q. (By Mr. Griswold): Mr. Anderson, you gave us certain characteristics which set this apart from all other varieties.

A. What I did, I think, was to use the qualitative differences that differentiate between all varieties, and then gave this one, the characteristics of this one, of those qualitative differences.

Q. Let's take the first one. The fruit is yellow flesh. Does that distinguish this from all other varieties of nectarines?

(Testimony of Frederic W. Anderson.)

A. Oh, certainly not. [78]

Q. Are there other yellow flesh?

A. Certainly, all of my patents are yellow flesh except two, 29 of 31 are yellow flesh. It eliminates all the white and the red, that is all, all that have white flesh and all that had red flesh. It eliminates none with yellow flesh.

Q. So that that isn't a means by which a positive identification by itself can be made?

A. No, it is a matter of elimination. You eliminate all of certain types, and you just gradually eliminate. It is a system that is used by—in classification of peaches and nectarines all over the world by all who have tried to do them.

Q. All right. The second point was it was red around the pit. You mean after the pit had been removed, that is, leaving the cup in which the pit has rested?

A. That is right.

Q. You don't show the redness around the pit in your patent 974, but can you describe the redness, according to any scale of any standard method?

The Court: Well, I think there is a little line which would indicate that. The only way you can express it in a drawing is that unless you take the pit out and photograph it, or try to imitate it, try to imitate—I don't know whether you call that a hole. Call it a depression, in the language of patent work. [79]

Mr. Griswold: I see that.

The Court: But there is an indication to me, a little red line at the edge of the pit that would

(Testimony of Frederic W. Anderson.)

seem to indicate that behind it the depression is reddish.

The Witness: Could I amplify?

The Court: Yes. Go ahead.

The Witness: I think this does it very well at that stage of ripeness. Of course, as the fruit ripens that red extends. In some varieties, not in the Sun Grand, it will extend all the way out. But I think this, at that stage of ripening shows the red line, and as it becomes eating ripe it would be considerably more extensive, spread out.

The Court: The entire thing is covered by the pit in the photograph, isn't it?

The Witness: Yes, that is right, except the edge.

The Court: This is just the edge?

The Witness: That is right.

Q. (By Mr. Griswold): Are there other varieties that are red around the pit?

A. Oh, certainly, certainly.

Q. Nectarines? A. Certainly.

Q. How many?

A. Oh, most of mine. I said 29—no, 30 of my 31; of the ones I have introduced only one— [80]

Q. Peaches are also red around the pit?

A. Oh, a great many. In this state, most of our shipping ones are red around the pit, and most of our canning ones have little red around the pit. Some of them do but the canners object.

Q. The well-known Alberta peach is, of course, red, that most of us are familiar with?

(Testimony of Frederic W. Anderson.)

A. Yes.

Q. All right. You indicated that the pit was a freestone, that was another characteristic. Now, standing by itself that isn't determinative, is it?

A. No, not at all, except that roughly—in fact most—I don't know whether most. I think most of my varieties are cling. It differentiates from mine and it just roughly cuts half of them out; in nectarine varieties roughly half are freestone and half are clings. That is a very rough approximation.

Q. Of the items I have mentioned that you have used, there are many other varieties that have these same characteristics?

A. Yes, that is true, but to get variety you have to multiply these things each time by the number they are, and you get a great many groups and that is done by a great many classifiers. In fact, I don't know—probably I can't go into that.

The Court: No, no, you are on cross-examination. You [81] are not limited. Go ahead.

The Witness: Well, then the latest classification I know by competent men is a French publication on the identification of peaches, is the title, but it includes nectarines, the main nectarines of Europe, 31 varieties. Now, he gets those in groups, 84 groups of peaches and 84 groups of nectarines, and then you can get all your nectarines in the different groups. Now, the ones he described there are only one that would fit in the Sun Grand, in the varieties that are grown commercially in California at that time there were none that would fit in that group.

(Testimony of Frederic W. Anderson.)

Now, I have introduced some others that would fit in that group, have all these qualitative differences, but the other commercial varieties grown in California there are none in that group; of those grown in Europe there was one. That one—I am afraid I am going too far. Am I, your Honor?

The Court: No, no.

The Witness: There is one in Europe that has been grown for over a hundred years that fits in that group, which happens to be group 113. It has all these things that you are mentioning.

Q. (By Mr. Griswold): You mean that plant 974 has?

A. Yes, 974 would come in the 113 group, and there was one described in this European publication by the Ministry of [82] Agriculture of France.

Q. What is the name of that?

A. I am just trying to think of it, the name of the variety. I have seen it, too, saw it in New York station in 1924. Well, at the moment, I don't recall the name. I can get it for you.

Q. All right. You indicated another test was that the kernel was bitter, and I suppose that is a subjective test. You have no method to determine degrees of bitterness? A. No, I haven't.

Q. So when you say bitter, what did you compare it to? Bitter related to what?

A. With almonds. We have sweet and bitter almonds, and the sweet peach or nectarine kernel tastes very much like sweet almonds or bitter al-

(Testimony of Frederic W. Anderson.)

monds. There are such tests to get the degree of bitterness, but I am not familiar with them. They merely use them. I don't know. I just go on taste, and as I said in my direct——

Q. In patent 974 does it show the taste of the pit?

A. I don't recall, I think not. I think even at that time I didn't realize that that was of any importance, but the Sun Grand does have a bitter pit.

Q. In other words, am I correct while you have similarity in variety you must continue your tests to various matters until you determine by a process of elimination? [83]

A. Yes, that is correct.

Q. All right. You indicated that there was one other, that is of the glands of the leaves. Will you take plant patent 974, Exhibit 1, and will you mark an arrow pointing to the glands, and just, if you can, designate the word "glands" at the point where you mark on Exhibit 1?

A. Figure 3 at the right hand corner, shows a leaf—this figure 3 down in the corner shows the leaf with the blade here, petiole here, and these little raised objects at the base of the blade and on the petiole are the glands. Those are raised and round in this case, and they will vary from one to, oh, maybe a half dozen, usually there are, oh, two or three on the petiole.

The Court: Usually arranged as they show on this leaf?

The Witness: I think fairly close to that.

(Testimony of Frederic W. Anderson.)

The Court: Yes.

The Witness: There is considerable variation in that arrangement on different leaves.

The Court: All right.

Mr. Griswold: Could we mark on the exhibit the——

The Court: Well, has he the exhibit?

The Witness: No.

The Court: You may mark it on the exhibit. Here it is.

The Witness: Right there.

Mr. Griswold: You mark it. [84]

The Witness: What do you want me to mark?

Q. (By Mr. Griswold): Just mark an arrow pointing to the glands.

(Witness marking.)

Mr. Griswold: Let the record show the witness is marking a circle around what appear to be—how many glands?

The Witness: Oh, the number is very variable. On this particular leaf there are four shown here.

Mr. Griswold: Will you mark an arrow to that and then write the word “glands”?

Q. I believe you claim in your plant patent 974 that the number of glands are average four in number.

A. “Average four in number; alternate, medium size, globose. Positioned mostly on blade, occasionally on petiole. No stipules.” That is a very variable thing. They will vary from—on this particular

(Testimony of Frederic W. Anderson.)

variety—two to five. Now I wouldn't be too sure that they would average that many. I don't think it is important, and I don't think it is when I write patents, the number. However, I have average four there. I think that average is high, high for most any variety with glands.

Q. Now, of the four tests which you have described——

A. Four tests?

Q. Yellow flesh, globose glands, red around the pit, freestone, and bitterness of kernel, which if any of these [85] are most important in your opinion, in making your determination which you have testified to?

A. Oh, I would say none were the most important, because it takes the whole group together plus many quantitative things, but the qualitative ones are the more important in that people can't disagree. When you come to quantitative things it is very difficult to get two people to agree.

Q. You mean everything else about plant patent 974 and the so-called Red King could be open to some subjective difference and not capable of mechanical or other finite measurement?

A. I think the answer is yes. However, that is covering a lot of ground.

Q. Well, I understood your answer to be that way.

A. Let's see, will you put that again. It is pretty long and pretty involved. Can you chop it up?

Q. You have testified that these four tests which you made——

(Testimony of Frederic W. Anderson.)

A. Pardon me. I named eight tests, but I didn't, however, see the flowers which was also a test.

Q. Do you feel in your opinion that the flowers are important?

A. The flower is very important. I know the flower on the Sun Grand, oh, yes, I have the Sun Grand flower here, yes, so it would be eight tests instead of four, qualitative tests. [86]

Q. Well, will you describe the flower of plant patent 974?

A. Well, it is just a large flower; the division I gave you was large and small, and it has the large type.

Q. You don't feel, though, that the flower would be important in making an identification as between 974—

A. It is very important; all these qualitative things are very important.

Q. Well, did you make an examination of the fruit, that is, the—withdraw that question. Did you make an examination of any of the flowers on the Hagler ranch?

A. No, I have never been at the Hagler ranch when the flowers were ripe.

Q. Did anyone under your direction or supervision? A. Yes.

Q. Who? A. Mr. Taylor.

Q. You instructed him to take specimens?

A. I instructed him to take pictures of it.

Q. And did he do that?

A. Yes, he took pictures from the air, and you

(Testimony of Frederic W. Anderson.)

can tell—and also observed them from the air, and the difference between large and small blossoms is so striking that he reported that they were large petals.

Q. You mean aerial photographs were [87] taken? A. Yes.

Q. From an airplane? A. Yes.

Q. And have you examined those photographs?

A. Yes.

Q. Are those in court? A. I don't know.

Mr. Griswold: Counsel, do we have those photographs?

Mr. Shepard: Yes. I don't know what he is referring to. I have some photographs.

Q. (By Mr. Griswold): Could you identify the aerial photograph which you made for determination of these blossoms?

A. Well, I think so. I think you can draw the dividing line between large blossoms and small blossoms. I will agree that there might be a possibility of error but I think it is very small.

Mr. Griswold: Could we have those photographs, counsel? I would like to see them and exhibit them to the witness.

Mr. Shepard: Your Honor please, we are back to the old stage where counsel wants to use the opposing party's exhibits. Now, I have certain photographs which I intend to introduce in due order by the person that took the photographs, and at that time I would be perfectly willing to have counsel

(Testimony of Frederic W. Anderson.)

recall this man to cross-examine on those photographs. [88]

The Court: I think you misconceive entirely the object of cross-examination of a witness like this. This man is your chief witness. He is the patentee.

Mr. Shepard: That is correct.

The Court: And therefore his relationship, his examination here bears on wilfulness, because if at the time this man visited there, he didn't inform the people of his suspicion that they were violating, or were infringing the patent, that goes to their good faith in continuing the activity and not destroying the trees. That can be brought out by cross-examination.

Mr. Shepard: I don't follow what that has to do with the question here.

The Court: Well, I rule that you are to show them to him, to give them to him, that is all there is to it.

Mr. Shepard: What is that, your Honor, the photographs?

The Court: The photographs he asked for. Supposing you are taking a deposition, you would have to produce them as discovery. This is a trial.

Mr. Shepard: That is correct, your Honor, but I object to counsel's tactics of trying his case with documents——

The Court: I am ruling, and I am not listening to speeches. Turn them over now, please.

Mr. Shepard: If that is the order of the Court, we will.

(Testimony of Frederic W. Anderson.)

The Court: That is the order of the Court. A lawsuit [89] has ceased to be a game; its object is to attain the truth, and a party can't say "these are mine." You brought this lawsuit, they have a right to go through your file and have you produce all sorts of things. They can't put you to unnecessary expense, but anything you have here they have a right to see, and if I rule they are material they go in regardless of the fact you may want to later on. I control the method of proof.

Mr. Shepard: Very well, your Honor.

The Court: A lawsuit is not a game.

Mr. Shepard: Well, your Honor, I have heard that said before and I fully agree with you. I am not trying to make this a game.

The Court: Well, that is all right.

Mr. Griswold: Mr. Anderson——

The Court: Too many people are reading books by Mr. Belli, which don't work in our courts, considering the law as a game of skill. That is not the law in the federal court and it isn't the law, according to my conception, in the state courts either.

Mr. Shepard: I have never had Mr. Belli's——

The Court: And under the rules of discovery it is not harmful. Why, I have had a patent case where as many as 100 patents, defense patents, were introduced by cross-examination of the plaintiff's experts. And this man is [90] offered not only as an interested party, as a patentee, he is an expert.

Mr. Shepard: That is right.

The Court: All right.

(Testimony of Frederic W. Anderson.)

Q. (By Mr. Griswold): Mr. Anderson, you have testified, I have asked you about the blossoms of what we claim to be the Red King, and you have testified that Mr. Taylor took certain pictures, or took certain photographs at your instruction, and I hand you certain photographs. Will you go through that group of photographs there, and sort out those aerial shots which in your opinion show the size of these flowers?

A. I haven't seen these, so I don't know they are even here. This is new to me, this part of it.

Q. Those two you have never seen before?

A. Well, I saw the—I don't know what you call them, I am not familiar with pictures. I saw the negatives, or whatever it is, and we looked at them through a blown-up machine and that is all that I have seen. These came today, I believe, and I glanced through them here, some of them, at the table, but other than that I haven't seen these. I thought these were all fruit, the ones that I saw were all fruit. I don't know, it might have been the negative of a picture like that, I don't know.

Q. Could we mark this— [91]

A. I don't know, I probably looked at all these.

The Court: If the witness does not identify them I am not going to let them go in as your exhibits. There is a limit to what you can do. Unless he identifies them you can't bring them in out of line as your exhibits. See the point?

Mr. Griswold: He is speaking to me.

The Court: I want them returned to counsel,

(Testimony of Frederic W. Anderson.)

unless he can identify them you are not entitled to have them.

The Witness: This is difficult for me because I haven't seen these before and I don't even know the blocks. Well, all of these that I have been looking at, the last three or four, I think I could tell that they were large blossoms, but from these I couldn't be sure which were large and which were small.

Q. (By Mr. Griswold): There are numbers on each one. Could you state which ones you can make that identification?

A. Well, I wouldn't be at all certain.

Q. The ones you think you might, just give the number. There is a pencil number on each one.

A. Well, this may not be at all accurate, but J-19, J-13, J-14, I would think that I could identify, but I wouldn't be sure about that now, but in any event Mr. Taylor told me from the air it was not easy but he would be certain [92] that these particular blocks were large blossoms; but from these pictures I wouldn't be absolutely certain, but I think those are—did I have J-18 there? But I wouldn't be certain of that.

Q. Mr. Anderson, I understand that you did take samples of the fruit from the Hagler ranch?

A. On which occasion are you now speaking?

Q. In 1957, and again in 1958?

A. No; I did not in '57. No; I took them in '58, but not in '57. I do think that some of the other

(Testimony of Frederic W. Anderson.)

members maybe took a few in a basket. I am not even clear on that now. I did not.

Q. Do you have any of that fruit that you removed, or anyone in your party, took from the Hagler ranch this year, 1958?

A. No; I do not. It has spoiled before now.

Q. Does Mr. Kim, if you know, have any of the fruit from the Hagler ranch?

A. I wouldn't know now, but he has told me that they were spoiled, all of them. But these pictures, by the way, that you showed me here of the fruit were taken approximately the time the trial—or the time we were notified the trial was not going to be held in September, we took them out of the storage place and they were not in very good condition, although still, they were able to photograph them, but even [93] then we had difficulty keeping them to that time.

Q. In your opinion is there any better test than the fruit itself to make identification of nectarine varieties?

A. I can't answer it that way. There are all things, the tree, leaves, flowers, fruit are all very important. The fruit is the final thing, of course. The fruit is the thing that is sold and is the final thing that must be certain.

Q. Would you, with your knowledge and background, endeavor to make an identification of a nectarine variety from the tree only, absent the fruit?

A. Never a positive identification. I can drive

(Testimony of Frederic W. Anderson.)

along the road and tell a Muir from an Alberta, for instance, but to make a positive identification and say that is a Muir positively and no other fruit in the world like that, I can't do it anyway, and I don't think anybody else can.

Q. How much fruit was taken in 1958 from the Hagler orchards?

A. Oh, it was only a small quantity. We took them from three different locations, and, gosh, I don't recall the quantity, but I don't think it would have been over—I think it would be less than 100 fruits altogether.

Q. From which locations?

A. Well, we took them from—well, of course, we took them from two locations, we made two stops, on Mr. Hagler's place. We took in addition samples from a tree on Mr. Hunter's [94] place. We kept those separate.

Q. All right.

A. But they were identical as far as I could observe.

Q. Directing your attention to the Hunter ranch, that is the place you said you visited in 1954, and identified two trees as being of the 974 patent?

A. Identified one positively, and one not positively.

Q. This trip in 1958, you returned to the same location in the Hunter ranch, did you not?

A. I am quite dubious about that. In fact, I personally don't think so.

(Testimony of Frederic W. Anderson.)

Q. You did find a tree, one tree that had fruit which you claimed to be Sun Grand?

Mr. Shepard: Which year?

The Witness: Which year?

Q. (By Mr. Griswold): 1958.

A. Yes, I—Mr. Hagler and Mr. Houk took us to a tree that they said was a parent tree they had budded it from, Mr. Hagler had budded these blocks, and I got fruit from that tree which I identified as Sun Grand.

Q. Did you on this second visit look for the other tree which you identified as being Sun Grand in 1954?

A. I didn't look for it, but Mr. Hagler brought it up and said, "Where is that second tree," and I said, "Obviously [95] it isn't here, the trees all around are LeGrand," and that was as far as it went. Mr. Houk was in a hurry to get away for some reason, and I didn't ask to be shown the other tree. In fact, I had—well, that would be going too far again. Can I give my reasons there, your Honor?

The Court: Yes; you may.

Q. (By Mr. Griswold): Go right ahead, Mr. Anderson.

A. Well, I didn't request it. I figured it was of no importance, because the tree they showed me was Sun Grand, and they said they got their buds from that tree so I didn't care one way or the other. The tree they said they got their buds from was also Sun Grand.

(Testimony of Frederic W. Anderson.)

Q. Then am I not correct that in your deposition, that this second tree which you claim to be Sun Grand was next to the tree that had the fruit on it?

A. That is correct.

Q. What I am asking you, did you in this second visit some four years later, where Mr. Hagler and Mr. Houk took you to show you this tree from which they claim they got the buds for their other orchard, did you look to see if you could find this other tree?

A. No; I did not because, as I told you, I figured it was of no importance. This was Sun Grand and if that was the tree they got the buds from it didn't make any difference. [96] In fact—I am afraid I am transgressing, your Honor.

Q. No; I am interested. As cross-examination I want to find out, because I am curious, I want to know.

The Court: Now, he has already told you. If you want to confront him with something in the deposition—has the deposition been filed?

Mr. Savage: No.

Mr. Griswold: Where is the original deposition? I think we should have it filed. I think the witness has acknowledged that he did so testify in his deposition.

Mr. Shepard: Well, wait a minute.

The Court: Just a minute. The main point is this, gentlemen, if there is a deposition, the original should be filed, and then counsel can save time by merely pointing to the question and you will prob-

(Testimony of Frederic W. Anderson.)

ably stipulate that he so testified, and it would save time. If the deposition is on file it is probably sealed and has to be unsealed. If it hasn't been filed it ought to be filed, if it is going to be used as the basis for cross-examination of this witness. He not being a party it cannot be used for any other purpose.

Mr. Griswold: Mr. Anderson, I show you your deposition, the original——

Mr. Savage: Just a moment, counsel. We want to do what the Court wants us to do. These depositions have not been filed. [97]

The Court: They have to be filed, otherwise they cannot be used.

Mr. Savage: Then let him file them.

Mr. Griswold: I will file them.

Mr. Savage: I think the deposition is not signed, the original.

Mr. Griswold: I will make the offer of filing.

The Court: They are certified by the notary, he hasn't signed them. Did you waive signature?

Mr. Shepard: We waive signature, your Honor. I don't know whether this—what he is bringing up has anything to do——

The Court: That is not for you to decide. That is for me to decide. Depositions are taken to be used.

Mr. Shepard: Certainly, we want him to use it.

The Court: Well, are you now raising the point that it has not been signed?

Mr. Shepard: No.

(Testimony of Frederic W. Anderson.)

The Court: If so I will order the witness to read it between now and tomorrow and decide whether he wants to sign or not.

Mr. Shepard: We would offer it as it is there, your Honor.

The Court: It is not offered. It is not offered at all. The deposition should be filed, otherwise there is nothing upon which to go.

Mr. Shepard: What I am trying to say is, we have no [98] objection to it being filed, as you have it in your hands, with the exception that there are certain technical words in there that Mr. Anderson has pointed out to me were in error, and it is my fault——

The Court: Subject to any correction.

Mr. Shepard: ——they were not corrected.

The Court: This deposition by being filed does not become an exhibit in the case. It is merely a part of the file.

Mr. Shepard: I understand.

The Court: And each side may use it only for cross-examination, except in the case of a person who is also a party.

Mr. Shepard: Oh, yes.

The Court: In which event it may be used for all purposes.

Mr. Shepard: We have no objection to it being filed.

The Court: All right, you file this. Mark it filed. Then you point to the particular question and

(Testimony of Frederic W. Anderson.)

you will stipulate as to whether he so testified and we will gain time. All right. What page?

Mr. Griswold: Page 13 of the deposition, starting on line 1.

The Court: Look at page 13 and tell him what line.

Mr. Griswold: Starting at line 1, and continuing on until page 15, line 6.

Mr. Shepard: Your Honor, may I have the opportunity of pointing out to the witness that he submitted certain technical words [99] to me, I think about ten, scattered through the deposition? I don't know whether this has anything to do with it, but I think I should tell him that I haven't changed those in the deposition at all.

The Court: They can be changed later on. Will you stipulate that the witness testified as indicated on those lines, subject to correction as to scientific terms which may be wrong?

Mr. Shepard: We certainly will.

The Court: All right. Read them to the Court and put the question to him, if you want to put a question to him.

Mr. Griswold: I will read the part that I designate.

The Court: That is right.

Mr. Griswold: "A. We stopped at the road and went in to Mr. Hunter's orchard where they were picking.

"Q. And then you and Mr. Harry Kim and.

(Testimony of Frederic W. Anderson.)

Mr. Stafford proceeded to walk around the orchard looking for what you could find, shall we say?

“A. No; that isn’t quite true.

“Q. Then you tell me.

“A. We started over and Mr. Kim said something to the effect that, well, ‘Mr. Hagler said that this variety came from along the edge of the Le-Grand block, and I assume it will be along here.’ So we were walking along over toward where they were picking. I said, [100] ‘Well, there is two trees that certainly aren’t LeGrands,’ and he looked at them at some length or one of them. We found fruit. Well before we had seen the fruit, I said, ‘Well, they look like Sun Grand trees.’ And then when we found the fruit we all agreed that it was Sun Grand and we proceeded on. And just before we got over to the pickers Mr. Hunter advanced from the pickers and Mr. Kim introduced us, asked about this tree that Mr. Hagler had got the fruit from and Mr. Hunter immediately took us over to the tree and showed it to us.

“Q. Just one tree?

“A. Well, Mr. Hunter just showed us one. I thought that tree adjoining was Sun Grand, but, however, we had found no fruit on that, and I don’t recall that we asked Mr. Hunter about that.

“Q. And why did you determine that tree next—which tree was it; which direction from the tree——

“A. The tree that had the fruit on it was one tree east of the tree that Mr. Hunter showed us,

(Testimony of Frederic W. Anderson.)

was one tree east of the other that I thought also was Sun Grand.

“Q. Why did you think the tree that would be the western tree, was in the next row to the west?

“A. According to which way you think the rows run, [101] the next tree to the west.

“Q. All right.

“A. Why did they think it was Sun Grand? Sun Grand grows very different than the LeGrand, and even before I came to them I thought they were both Sun Grand. And when I examined them they both had globose glands. The LeGrand has reniform glands, and I thought they were Sun Grands. The fruit apparently had been harvested, but after sampling some on one tree, we found a few fruits underneath, and they were definitely Sun Grand.

“Q. Well, the tree did not have any fruit, what were its characteristics that you observed on that tree that led you to believe that it was Sun Grand?

“A. It had a growth of Sun Grand, and then the leaves were also globose glands, and the type of leaf that Sun Grand has.

“Q. What kind of growth did it have?

“A. The Sun Grand is a much more vigorous grower than the LeGrand, more upright, more what I called the level type of growth. It is different than the LeGrand. LeGrand is short, stubby, sturdy grower, more like the J. H. Hale, and Rio Oso, that type of growth.

“Q. What else did you observe about that tree

(Testimony of Frederic W. Anderson.)

that had no fruit on it that led you to believe it was Sun Grand? [102]

“A. I don’t know that I made any particular examination that would make me certain that it was Sun Grand. I thought it was Sun Grand.”

Now, this second visit in 1958——

Mr. Shepard: May I point out, I don’t want to take away the significance of whatever that was, but there were two words that you noted to me, Mr. Anderson, at line 14 there, on page 14, instead of “sampling” you suggested that should have been “searching”; and on line 24, on page 14, instead of “level” you suggested “Lovell.”

The Witness: That is correct. May I——

The Court: Yes.

The Witness: That is correct, I made those two corrections. They are obviously mistakes that the stenographer did not understand me.

The Court: Well, all right. The corrections may be made on the record where you indicate. All right. Go ahead.

Q. (By Mr. Griswold): When you visited again this area of the orchard in 1958 as you have testified, did you make an examination of this second tree which you referred to in your deposition, which you identified as Sun Grand or plant patent 974?

A. I have already told you that I thought it was one, the same tree—not either of these two trees, the one Mr. Hagler showed me that he got

(Testimony of Frederic W. Anderson.)

the buds from I thought was [103] not either one of them. I am not sure of that, but I don't think so.

Q. Well, as near as you recall then, it was some other part of the orchard that you were in in 1954?

A. I wouldn't say it was another part of the orchard. It was reasonably close there, but I think—maybe I—

The Court: Go ahead. Go ahead. You may explain your answer.

The Witness: I think at that time—

The Court: I don't want to cow you. You don't look as though somebody could scare you.

The Witness: It is a little difficult, it is for me anyway—there is nothing in that answer, in the deposition that I object. I would answer exactly the same, and I think I have before you got to this. And I said at that time, at the time of the deposition, I had not been back since 1954 but from the description I made I didn't think it was the same tree, and after I went this year in 1958 I still didn't think it was the same tree, although I concede that after that length of time, with no notes, that I could be wrong, but I don't think so, and mainly on the thing that the tree next to it, the tree to the west, was obviously LeGrand and it was obviously an original tree, and so I don't think it was the same location. And the other reason I didn't think it was the same location is that I didn't think we were that [104] close to the east edge of the orchard. My memory said that it was on the—just adjoining the LeGrand block, the first row outside,

(Testimony of Frederic W. Anderson.)

in a home orchard, and I still think that. I don't know. I never went back in '58, so I don't know.

The Court: I think the witness has sufficiently answered. I think we ought not spend more time on this. He has given his impression and his explanation, so let's go to the next subject.

Q. (By Mr. Griswold): Now, did you examine—withdraw that question. I want to make a difference now and call your attention to the fruit that you took off of Mr. Hagler's ranch and the fruit that you took off of this tree on the Hunter property which Mr. Hagler claimed to be his discovery tree.

A. What was the question? I understand what you said all right.

The Court: It wasn't a question, it was a statement.

Q. (By Mr. Griswold): Did you take fruit specimens from both, we will call it Mr. Hagler's discovery tree on the Hunter property in 1958?

A. Yes; we took—as I told you, we took from two blocks on the Hagler place, and one tree called the parent tree on the Hunter place.

Q. And did you mix those fruits?

A. We did not at the time, we kept them [105] separate.

Q. And you took no photographs until approximately September of 1958, is that right?

A. We—yes, that is correct. We assumed we would have them for the trial, and then when the trial was delayed I instructed Mr. Taylor to make

(Testimony of Frederic W. Anderson.)

photographs himself, and also after he did that I told him I thought he better have some commercial photographer make them, and so he took two sets, that is, he took one and the photographer took another.

Q. You testified at one time part of your work was trying to discover sport growths or sport trees, is that right?

A. You mean back in the '20's?

Q. Yes; bud sports that would give better strains?

A. Yes; there was a theory at that time, and still held by some that you can get bud sports that give better varieties and we looked for them, and we had many reports of them and we ran them down and examined them.

The Court: Isn't that what is known as the De Vries Theory of Mutation?

The Witness: That is correct, your Honor, although the De Vries Theory of Mutation covers much larger ground.

The Court: Well, it covers biology just as—you named the other man.

Mr. Shepard: Mendel.

The Court: Mendel, the priest. The Mendellian theory, while it was evolved in the realm of plants, is applied [106] biologically.

The Witness: Yes; everywhere in the biological field.

The Court: All right.

Q. (By Mr. Griswold): I will ask you this question: You are familiar with the tree that Mr.

(Testimony of Frederic W. Anderson.)

Hagler claims sported or was a mutation. Now, you have been shown the tree.

A. Which tree are you speaking of now?

The Court: I think that goes clearly out of the line of cross-examination.

Mr. Griswold: I will withdraw the question.

The Court: I merely made the statement to show my familiarity with the general theory of biology, that is all.

Q. (By Mr. Griswold): That is one way, mutation, is it not, that new varieties are brought into existence, into being? A. Yes.

The Court: Go ahead, you may explain. You hesitated. You may give a reason.

A. Yes. I think I made the explanation when we discussed mutation, mutations cover a broader field. This they said was a bud sport. Now a bud sport is a mutation, but it is a special kind of a mutation that comes only from buds.

Q. (By Mr. Griswold): Am I correct that if a nectarine was a mutation that [107] it would be extremely remote, if not impossible, to be the same as plant patent No. 974?

A. Yes; you are wholly correct.

Q. So, in other words, the chance of a mutation having all the characteristics of your plant patent 974 is impossible, or could we go that far?

A. It is going very far.

The Court: I presume "remote" would be a better word.

The Witness: Yes; extremely remote. It has

(Testimony of Frederic W. Anderson.)

never happened in the history of horticulture, but that is not saying that it couldn't be some place.

The Court: Might not be done.

Q. (By Mr. Griswold): Did you know before today that Mr. Lyle Hagler had been granted by the United States Patent Office plant patent 1718?

A. Yes; I did.

Q. When did you first find that out?

A. Well, I first found it out, I think Mr. Shepard told me, I don't remember the date, some time before the original trial was scheduled, some time in the summer, and then I read about it and sent for copies from the Patent Office, and got four copies of it along about, I think about the first of September, somewhere in September.

Q. You are also familiar, I think you testified about—— [108]

The Court: I want for the sake of the record to indicate that so far as I know this case has never been set for trial before. Is that correct?

Mr. Shepard: No, your Honor, it was set for trial on September 14th and 16th, and because Judge Jertberg was elevated, he postponed it.

The Court: Yes, you gentlemen called up and I told him that he could put it in and I would try it. I dislike an intimation that cases are not tried promptly when I and other Judges are volunteering to fill in the vacuum which the President created by not appointing a successor to Judge Jertberg.

Mr. Shepard: We have no criticism of anybody, your Honor.

The Court: As a matter of fact, I superimposed this case upon another case, and if that case had gone to trial you would have had to trail behind it. Now that everybody talks about delays, I want to say there are no delays in this court, in this division or the central division; cases are being tried as fast as we can possibly try them. In fact, some lawyers are complaining we are trying them too fast.

Mr. Shepard: That is correct. We just wanted——

The Court: This case was not set before that time. It has been pending for over a year but it was set and couldn't be tried because he was promoted—as a matter of fact, he ceased to be a Judge and only by grace was he allowed to act, [109] because he had himself appointed for a month so as to be able to help.

Mr. Shepard: That is right, your Honor.

The Court: All right. Now let's make the record straight, because I want the laymen to understand these things. You know they go out and they hear speeches which are fantasies and do not represent facts. All right.

Mr. Griswold: I have no further questions.

The Court: Any redirect?

Mr. Savage: May we have a moment, your Honor?

I think at this time there are no further ques-

(Testimony of Frederic W. Anderson.)

tions. We will probably want to recall him in rebuttal.

The Court: He can be called at any time you want. All right, gentlemen, this is a good stopping point. It is nearly a quarter to five, and we will take a recess until tomorrow morning at the usual time.

(Thereupon, at 4:40 o'clock p.m. a recess was taken until 10:00 a.m., on November 5, 1958.) [110]

November 5, 1958—10:00 A.M.

The Court: All right; cause on trial.

Mr. Shepard: We will call Mr. William Taylor.

JAMES WILLIAM TAYLOR

called as a witness by plaintiff, having been first duly sworn, was examined and testified as follows:

The Clerk: State your full name, please.

The Witness: James William Taylor.

Direct Examination

By Mr. Shepard:

Q. Mr. Taylor, where do you reside?

A. I live at LeGrand, Route 1, Box 115, LeGrand.

Q. And how long have you lived there?

A. I have lived there since 1953.

Q. How old are you?

A. I am 34 years old.

(Testimony of James William Taylor.)

Q. Married and have children? A. Yes.

Q. Now, then, what is your particular occupation at the present time?

A. I am a plant breeder.

Q. Will you tell us where you began your education in that field, or related fields, going back to your first college?

A. Well, I grew up on a farm and, of course, went to [113] elementary school, high school, and then to the University of British Columbia in Canada. I acquired the degree of Bachelor of Science in agriculture, with major in horticulture and minor in botany.

Q. What year was that?

A. That was between 1942 and 1947.

Q. After you graduated from British Columbia, the University of British Columbia with your Bachelor's degree, what activity did you follow then in relation to agriculture?

A. I worked for a brief period with the British Columbia Agricultural Department and then in the fall of 1941 I went to Hawaii as a trainee with the Hawaiian Sugar Planters Association.

Q. During the fall of what, 1941?

A. Excuse me. 1947. In 1947 I went to Hawaii with the Hawaiian Sugar Planters Association as a trainee. During a period of something over a year we took 28 units at the University, and six weeks with each of their experimental departments. A good part of that time, about a month and a half of that time was spent with Dr. Mangelsdorf.

(Testimony of James William Taylor.)

Q. Now, the experimental line had to do with what phase of horticulture?

A. Well, the Hawaiian Sugar planters is sugar production, which covers all the experimental agricultural aspects.

Q. Yes. Part of your particular activities, did that [114] have to do with plant breeding?

A. Yes. After completing the course I worked with the Ola Kelly Sugar Company, and during that period we looked after the variety program and other experimental activities in agriculture.

Q. What was the objective of the variety program?

A. The objective of the variety program was to select new varieties that were superior to the ones they were then growing, in sugar content and other characteristics.

Q. In your experimental activities did you cross breed, and so forth, or not?

A. Yes; in our basic work with Dr. Mangelsdorf we worked with him during one season in crossing and seed growing.

Q. Now, after you had spent some time in Hawaii on sugar plants, and so forth, you returned to California, as I understand?

A. Yes; in 1950 I returned to California, and entered the University of California at Davis. There I obtained my Master's degree in pomology in 1952.

Q. Now, what in particular, did you develop as a thesis for your Master's degree?

(Testimony of James William Taylor.)

A. My thesis, my work on my thesis was on interspecific hybridization of apricots and plums.

Q. And does that involve cross breeding?

A. I made many crosses attempting to get this interspecific [115] cross and was successful upon—in several of them.

Q. While you were going to Davis there, during the summer and at other times, did you have occasion to actually work as well as study?

A. In my academic work I always took the course for one year, or two semesters, and in 1951, the summer, I worked with Dr. Probst in tree fruit, experimental work. Then in the fall I joined Dr. Lillard and worked with him until March of 1953 on fruit experimental work with—in relation to nutrition and other problems.

Q. Now, since 1953, what has been your occupation?

A. In 1953, I joined Mr. Anderson in Merced, as a plant breeder.

Q. And what is your particular job, associated with Mr. Anderson? A. I——

Q. Describe generally.

A. I look after the experimental work that goes into the development of new fruits. I look after the crossing in the spring, collection of pollen, and the labor that they use.

Q. What is the majority of your experimental work with, what kind of fruits?

A. The majority of our work is tree fruit, with nectarines, peaches, apricots, almonds, plums, and

(Testimony of James William Taylor.)

other— [116] some other minor crops, along with grapes, being a major crop.

Q. Do you belong to any associations devoted to pomology?

A. Yes; I belong to the American Pomology Association, and the American Horticultural Society.

Q. With respect to the American Pomology Association, would you describe what that is, who the members are?

A. It is one of the oldest horticultural associations in America. That is mainly made up of scientific workers and interested people in variety work.

Q. And do you hold any particular office in that association?

A. Yes; I am a member of the regional committee, which is drawn up to help promote variety interest work.

Q. Which region is that?

A. It is the southwest, I believe.

Q. Does this association cover the entire United States? A. Yes.

Q. By way of relation, who are the other members of your committee in this western regional committee?

A. The other members of the western regional committee are Dr. Weinberger.

Q. Who is he?

A. He is director of the regional Department of Agriculture here, on horticulture, here in Fresno. And Dr. Reed M. Brooks, at Davis, who is in charge

(Testimony of James William Taylor.)

of the plant [117] breeding program; Mr. Merrill at Red Bluff.

Q. Mr. Grant Merrill? A. Yes.

Q. Now, have you besides your work taken time to make any papers in your professional field? Have you done any research or written any papers?

A. Yes; I have written various—two papers, one on embryo culture of peach development.

Q. Where has that been published?

A. Published in the proceedings of the American Society of Horticulture.

Q. And the other paper?

A. The other paper was a report on progeny of late maturing mutations of peaches and nectarines.

Q. Where was that published?

A. That was published in the Variety Digest, the Horticulture Variety Digest.

Q. So since 1953 you have professionally devoted your whole time to plant breeding and allied horticultural fields, is that correct? A. Yes.

Q. Now, I take it that you were instrumental in aiding in the development of the new patent varieties Mr. Anderson has spoken of before?

A. Yes; I did considerable selection during the summertimes, [118] I spent all my time on the selection of new varieties.

Q. And one of your primary concerns in this program is the development of new and distinct varieties, is that correct?

A. Yes; that is our aim, is to develop better

(Testimony of James William Taylor.)

varieties than the existing ones that we are now growing.

Q. Now, without repeating what Mr. Anderson has said before, but in order to get your independent ideas on the subject, would you generally give us the method, scientific method of distinguishing between varieties of nectarines, or other tree fruit if that can be included in the method?

A. I believe that in nectarines and peaches that are related—well, they are one and the same except for a single factor that should be included, so in your qualitative factors are of first concern, the differences between different varieties. I think I would be repeating possibly if I went through them.

Q. Just enumerate them briefly.

A. First of all, your globose, reniform, your glands, whether globose, reniform or eglandular. Second, you would have nectarines and peaches, with fuzz or without fuzz. Third, you would have yellow flesh versus white flesh, and in some instances red flesh.

Q. All right.

A. Fourth, freestone or clingstone. Fifth, the flower type, as to whether it is large or small, or in between possibly, [119] medium size.

Q. Do you attach significance to sterility, or not?

A. You have pollen, sterile type—to the person that knows antler types he can determine pollen sterile and fertile types.

(Testimony of James William Taylor.)

Q. Do you classify that as a qualitative or quantitative characteristic?

A. That is qualitative. Then you have the pit, as to the kernel, as to whether it is sweet or bitter.

Q. Does coloring have any bearing on the qualitative characteristics?

A. Certain of the peaches and nectarines are yellow through to the pit, and lack red coloring, so there is the difference between red color at the pit or cavity.

Q. Now, then, there must be other characteristics, such as type of trees, size of the leaves, color of the fruit, and other things a layman could think of. What type of characteristics are those?

A. Yes; there are many quantitative characteristics within a range, within a particular background, that will differ from variety to variety, but there is a range.

Q. Let's take the characteristic that hits the eye of the average layman the first thing, as far as fruit is concerned, I think, the color of the fruit, whether it is red, yellow or white, whatever it is. Now, what sort of identification [120] characteristic is that?

A. In the extremes of this particular factor there would be definite differences, for instance, one that didn't develop red on the outside to any extent or very little, to one that was completely red, and this color of red outside color is a variable from hard ripe, or you have a green fruit that may slightly have some red color before it is green, then

(Testimony of James William Taylor.)

as it ripens it turns to yellow base color, and depending on the variety and the position in the tree the red color that is taken on will be within a certain range. It may be in the same tree from the outside completely red, to the inside shaded portion where it might be of portions yellow or to the extreme portion of yellow with very little red.

Q. All right. I think you have answered my question, but to put it bluntly, within the same tree, one given tree, on a given day, first off, will there be different periods of ripening or will all of the fruit on that tree be of the same degree of ripeness on that day?

A. No; the positions and other factors cause differences in ripening of the fruit on the same tree. In harvesting, in most cases, depending on the variety, there will be two or more pickings, according to the maturity of individual fruit.

Q. By the same token, on the same day in the same tree, [121] will all of the fruit be of uniform color?

A. No; there is a range of color rather than a uniform color, because you have a yellow under-color in the fruit we are discussing at this time.

Q. Let's just keep this generalized.

A. Let's speak of yellow fleshed peaches and nectarines, is that permissible?

Q. Yes; go ahead, take that for an example.

A. You then have a yellow under-color developed with the red color that develops over that yellow color as the fruit matures, giving a varia-

(Testimony of James William Taylor.)

tion from the yellow portion to an orange to the red over-color.

Q. Now, if we can set up a hypothetical situation, which I am sure we would have difficulty duplicating in the field, but if you can visualize a tree, take the Sun Grand tree, growing up in your locality, say LeGrand, California, the same age and as nearly as possible the same conditions, that is as to maturity, growth of the tree, and taking a fruit which is in the same location, that is, we will say the south side at the top exposed. If you could duplicate that same tree, and pick out fruit in identical position on the same day in some other locality in California 100 miles distant, would you necessarily expect to find those fruit of identical color?

Mr. Griswold: May I inquire, is this a [122] hypothetical question, or based on an actual test?

Mr. Shepard: No; this is a hypothetical question.

A. Well, being a hypothetical question——

The Court: I don't see what bearing it has upon the issue before us.

Mr. Shepard: Let me withdraw it and ask it a different way. Does the color of a given fruit at a certain date of the year stay uniform in different localities?

A. No; speaking now of broad differences in making it easier to point up my case, the weather conditions or other conditions affecting the fruit

(Testimony of James William Taylor.)

can cause differences just as the foliage can, the fruit within the tree.

Q. Does the soil condition have anything to do with the fruit maturing and coloring?

A. Yes; very much so, soil conditions, you have a large field.

Mr. Shepard: Your Honor, the purpose of this is the fact that there will probably be in evidence references to samples of fruit from different localities in the Valley here.

The Court: Well, you are anticipating something that isn't before the Court.

Mr. Shepard: I am laying the ground work for samples that we will bring it, your Honor.

The Court: I see.

Q. (By Mr. Shepard): Now, Mr. Taylor, one other thing in these [123] qualitative characteristics, the ripening period, will you explain a little bit about the ripening period of fruit in general?

A. The ripening period of fruit in general, say for a specific variety, will vary depending on factors affecting it from year to year, in that one year you will have to start picking a few days earlier possibly than the next year, or a few days later, or whichever way, put it vice versa.

Q. In describing the ripening period of a fruit, of one given fruit, can you safely describe it as ripening or describe it as having a mid-range or an average ripening day or a given calendar date every year?

A. You can't put it on a calendar basis, but

(Testimony of James William Taylor.)

you can compare it with a variety that is well known.

Q. Can you put it on a calendar date?

A. No; you can't put it on a calendar date.

Q. And have an accurate description year after year? A. No; you can't.

Q. Now, I take it among all your studies that you have certainly read most of the outstanding works on pomology?

A. Well, I have read a good many of them.

Q. All right. Now, in your opinion, what would you say is the most accurate way to describe the ripening period of a given fruit?

A. The most accurate way is to compare it with a well-known [124] variety, as to so many days before or so many days after. There is some variation even in this because of weather conditions affecting the fruit that is in question and is actually ripening.

Q. Would you explain that a little further? Say that you have a given fruit X, and A is a well-known fruit, and you say that X ripens two weeks ahead of A. Would it be true it would ripen two weeks ahead of A every year out of ten?

A. No, sir; you would have to give a range, probably, you can say it ripens approximately two weeks before, but that includes a range within a few days one way or the other.

Q. Now, will you explain why, even comparing them with fruits, there might be a difference year

(Testimony of James William Taylor.)

after year as to the range in the interim between the ripening of those two fruits?

A. I am not sure that I——

Q. Maybe I can take an example. Do you know offhand when the J. H. Hales ripen?

A. Oh, depending on the locality, in that particular locality they ripen about the first week of August.

Q. And give me a fruit that ripens a month earlier than that, a well-known variety.

A. Well, let's put it this way, if you don't mind, that July Alberta ripens two to three weeks ahead.

Q. Now, you say the July Alberta ripens two to three weeks ahead of the J. H. Hale? [125]

A. Right.

Q. Now, in a particular year, is it possible that it might ripen just two weeks ahead of the J. H. Hale?

A. Yes. When I say two to three weeks, I mean, speaking of a range again.

Q. Will you explain why there can be that variation in range?

A. Well, I don't know that it is known, the facts that go to make up the conditions are known. There are various factors that cause development of fruit, and we might put in weather, climatic conditions as being one, but the factors are not completely known that cause it. You may have individual factors such as irrigation that may have something to do with it, other orchard factors.

Q. I think you have covered that subject. One

(Testimony of James William Taylor.)

thing more I omitted: In your qualifications you have traveled somewhat more than we mentioned here. In your plant breeding and pomology study you have gone as—would you describe some of the other places?

A. Yes; I have been in the east three times with the different groups of men at the different experimental stations going over their collection, seeing what they are doing, and the extent of their programs.

Q. University or government?

A. University and government stations, yes, and this [126] past winter I was in South America, Chile, studying this variety program situation and the possibilities of fruits that might be of value to us here.

Q. All right. Now, in 1957, did you have occasion to go to the L. A. Hagler ranch?

A. In 1957, yes.

Q. Year before last? A. Yes.

Q. And approximately what time did you go down there, do you remember?

A. If my memory is not completely wrong it was somewhere in the latter part of July.

Q. And who did you go with on that occasion?

A. The same group that was mentioned yesterday, Mr. Anderson, Mr. Kim, Mr. Stafford, Mr. (unintelligible).

The Court: You dropped your voice and no one heard you.

Mr. Shepard: You will have to speak up louder.

(Testimony of James William Taylor.)

The Witness: Shall I start over again?

Mr. Shepard: Mr. Taylor, maybe I can help you. You talk so I can hear you, not to the lady there. Talk to me, not to her, she will hear you.

The Witness: Mr. Anderson, Mr. Kim, Mr. Stafford, Mr. Zaiger, Mr. Casabian, I am not sure of the spelling.

Q. (By Mr. Shepard): Zaiger, was it? [127]

A. Yes.

Q. And Casabian?

A. I am not sure of that name, but I believe that is the way it is pronounced.

Q. You are not acquainted with him?

A. No.

Q. Now, then, would you describe as best you can what part of the Hagler ranch you went to?

A. Well, we went past the building, oh, I suppose, in memory, it would be half, three-quarters of a mile, and turned right.

Q. You went past his ranch farmstead?

A. Yes; went south some half, three-quarters of a mile, I am not sure of that distance.

Q. Yes.

A. Turned right, for another distance of three-quarters of a mile, I wouldn't be sure of the distance, then turned right in along the eastern side of the orchard—the western side of an orchard.

Q. Western side of an orchard and was that situated up against any feature of the landscape there?

A. Well, I believe there are some power poles

(Testimony of James William Taylor.)

on the west side, and drainage canal on the—as we went back into the orchard at the far end of the drainage canal running east and west. [128]

Q. Now, then, make reference to the drainage canal, the trees that were adjacent thereto. Maybe we could use a picture.

A. Well, at that time I think there were—sorry.

Q. I will stop here for a moment and change the date, so we can introduce this picture, and I think we can describe where you went by the picture. Did you have occasion to take some aerial photographs of Mr. Hagler's ranch later?

A. Yes.

Q. Approximately what time?

A. Approximately the first week in March.

Q. The first week in March of what year?

A. This year, 1958.

Q. And who was with you when the pictures were taken?

A. Mr. Howard Stafford.

Q. Howard Stafford. Who was flying the airplane?

A. Mr. Stafford was flying the airplane.

Q. And who took the pictures?

A. I took the pictures.

Q. Do you recognize the picture in front of you?

A. Yes; I recognize the picture.

Q. Would you describe what that picture portrays?

A. Well——

Q. Just what part of the ranch does it describe?

A. Well, this describes the road we took back

(Testimony of James William Taylor.)

into the [129] orchard, runs parallel to the base of this picture, back to the east-west canal.

Q. The drainage canal you made reference to, is that in the picture?

A. Yes; that runs across the picture.

Q. All right. Now, does that picture show the area that you visited on the ground in the latter part of July, 1957, which you started to describe a minute ago?

A. Yes; that area is in the picture.

Q. You might explain, the picture is a little bit dark, is that true?

A. Yes; these, of course, were taken with 35 millimeter and then blown up to this size, also because of the aerial, taking it through the window, it shows it somewhat dark.

Q. All right. Does that picture fairly portray, understanding this is an aerial photograph, the relation of the canal and the orchard and the adjoining fields of the orchard that you looked at there?

A. Yes; it does.

Q. And the rows of trees appear in the photograph there?

A. Yes.

Mr. Shepard: We would like to introduce this as Plaintiff's Exhibit next in order.

The Court: It may be received.

(The picture referred to was marked as Plaintiff's Exhibit 4, and was received in evidence.) [130]

Q. (By Mr. Shepard): Now, you can remem-

(Testimony of James William Taylor.)

ber that picture while the Court is looking at it, the drainage canal appears as the large blue line in the picture there? A. Right.

Q. The trees that you observed appear as a block of light colored trees, almost square?

A. Yes; that's right.

Q. And they are adjacent to the canal, being the blue line? A. Right.

Q. And appear about in the middle of the photograph?

A. Yes; middle to the lower left-hand corner.

Q. Yes; I will have you circle them.

The Court: The colors are not very distinct.

The Witness: Yes, because this was a block, you see, here is light pink color.

Mr. Shepard: Speak up loud so we can hear.

The Witness: Light pink color, in relation to this which is darker green. (Indicating.)

The Court: All right.

Q. (By Mr. Shepard): Now, the first row of trees next to the canal, did you observe those at that time, or not?

A. No; I didn't observe those at that [131] time.

Q. All right. With reference to the canal, which block of trees or which group of trees did you observe?

A. Well, I went to what we spoke of as that square block. It was somewhat along there, along the center of it, would be some ten rows from the canal.

(Testimony of James William Taylor.)

Q. Ten rows from the canal?

A. In that general area.

Q. And that was also the rows that end along the telephone poles in the picture?

A. That's right.

Q. Now, can you point out on this picture more or less the general location where you were in 1957?

A. Somewhere along in here.

Q. Just make an "X" or a circle at the general location. Make it hard, so it will stay on the picture.

A. It is marked.

Q. All right. You have drawn a circle on the photograph in black crayon, and maybe you had better make a line out to the side and put your initials "W.T." or "J.W.T.," whatever it is.

A. (Marking on exhibit.)

Q. All right. Now, within that block of trees, did you examine some of the trees, representative trees?

A. Yes; I examined the trees in the area.

Q. Now, would you describe the trees that you saw at [132] that time? A. Well——

Q. First off, we might say, did they have leaves on them?

A. Yes. At that time they were, of course, in full foliage, being the center of the summer. The leaves were globose, globose glands was the nature of the glands. The trees were a medium growth orchard.

Q. As between nectarines, how would you de-

(Testimony of James William Taylor.)

scribe the growth of the trees, was it weak or strong or medium, or what?

A. Medium in growth, in vigor, shall we say.

Q. Yes. Now, did you examine the leaves of the trees?

A. Yes; I examined the leaves and found them to be globose as far as the glands were concerned on the leaves.

Q. Now, I will have to jump a bit because you were not there during the flower season at that time, in 1957?

A. This was in the summer, rather than the spring.

Q. Yes. Did you have occasion to see that same orchard while it was flowering later?

A. From the air, yes.

Q. And is that when you took this aerial photograph?

A. That is when I took this aerial photograph.

Q. Now, were you able to determine from the air what type of flower or blossoms the trees had which you had walked on the ground and seen in the summer? [133]

A. Yes; my visual observation was that it was a large flowering type, because of the difference which you see from the air in the large flowers versus small flowers.

Q. Now, have you made air observations of orchards before?

A. Yes; I have done considerable flying hours observing orchards from the air.

(Testimony of James William Taylor.)

Q. Will you describe just briefly what that consisted of?

A. Consisted of looking for the large blossom types in relation to the small blossoms.

Q. In what sections of the country?

A. Throughout the central valley.

Q. Have you taken photographs of the central valley orchards from the air?

A. A great portion of the orchards with large blossoms.

Q. And what is the objective of those flights, to keep up on the identification of trees in small part?

A. Well, the objective is that the majority of our varieties—or the majority of varieties in nectarines have large flowers.

Q. Yes.

A. And, therefore, you can determine to some extent the location of the nectarine orchards through the country.

Q. In other words, that is a small lead as to nectarine orchards? [134]

A. It is one lead.

Q. It is one lead.

A. It doesn't specify nectarines, however. You have peaches also with large flowers.

Q. Yes. You may determine from the air they are large flowers, and find you are looking at peaches?

A. That is right.

Q. How many years have you been doing that?

A. Oh. I have observed before on a limited

(Testimony of James William Taylor.)

scale, year before last, but this last year was the first time to any great extent.

Q. And have you gone to the orchards that you have photographed? Have you gone to them on the ground to verify your observations from the air?

A. Yes; many of them.

Q. And your description then of the block under discussion here in the picture and on the Hagler ranch is they were large flowers?

A. That is right.

Q. All right. Now, moving back to the summer of 1957 when you were on the ground at the trees, did you have occasion to look at the fruit?

A. In '57?

Q. In '57.

A. Right. Yes; there were some fruits left on the trees [135] after the harvest had been apparently completed.

Q. And the sizes of those fruits, could you describe that?

A. The sizes were small, but there was some range within the sizes.

Q. Now, you are familiar with harvesting of trees? A. Yes.

Q. And did it appear to you that these trees were fully harvested, that it was past the harvest season?

A. You always have some scattered fruit left that were either too small at the time of harvesting, or missed.

(Testimony of James William Taylor.)

Q. Yes. But what I am getting at is, the general harvesting had been finished on the trees?

A. That would be my observation. However, some might come in by scavengers.

Q. Now, the fruit that you did see then were the remnants or a small group left on some of the trees? A. Yes.

Q. And of that fruit, did you observe its color?

A. Yes; I observed its color.

Q. Would you describe it?

A. The color, at that time the few fruits that were left were predominantly red with, in some cases in some fruits, yellow portions.

Q. I see. Now, maybe I have touched lightly on this before, but describe it more fully. Would you explain as a [136] general rule the change in colors of a fruit through the season, of a given variety of fruit, what you expect?

A. Your expectations, of course, are green for the beginning of the season. Some of the highly red colored nectarines are of some red portion, have a red portion while they are still green.

Q. Yes.

A. Then as the green base color turns to a yellow base——

Q. Is that because of the yellow fruit or not?

A. That is because of the yellow flesh.

Q. Yes.

A. The yellow fruits, yellow fruit varieties, when turning from the green state to the yellow develop a yellow base color, depending on the cir-

(Testimony of James William Taylor.)

circumstances of its position and the variety, it will develop red over-color at the time it is maturing.

Q. And as it gains maturity and goes into even late maturity, does the color change more, or not?

A. Well, there is, as the fruit is in the stage of developing, developing in relation to maturity——

Q. Yes.

A. ——the red increases as it matures, but there becomes a point of senescence where it starts to go back and the color does—the red color doesn't develop.

Q. I haven't asked you this before, or even beforehand, [137] but did you happen to see any LeGrands on this trip to the Hagler place at that time or not? A. No; not at that time.

Q. Now, then, did you break open the nectarines that you observed on these trees under discussion?

A. Yes; I cut them, cut the nectarines and observed the inside characteristics, as being a free-stone, red around the pit cavity, of firm texture for the time, for the fact it was after the actual harvesting date, and had considerable red at that time.

Q. Of course, the flesh was yellow flesh, I assume?

A. Yes; yellow fleshed with red running into the flesh.

Q. Now, did you observe the skin of the nectarines?

A. Yes; the skin was very smooth, waxy surface.

(Testimony of James William Taylor.)

Q. Did you observe the sweetness or bitterness of the kernel? A. Yes.

Q. Or the taste of it?

A. On cracking I found the kernel to be bitter.

Q. Did you take a bite of them?

A. Yes; I sampled them, as you always do, and the fruit in relation to some of other fruits, most fruits, was slightly acid, slightly acid in taste.

Q. Did it have a good taste or bad taste?

A. Yes; it was a good taste.

Q. Insofar as taste opinion varies. Now, then, you [138] have observed Sun Grand nectarines?

A. Yes; we have a block at the ranch, and see it considerable.

Q. In particular, you have observed the nectarines which you grow under Mr. Anderson's plant patent 974, which we have denoted as Sun Grand?

A. Yes.

Q. And you are familiar with this patent, or have previously read it on occasion?

A. Yes; I have read it on occasion.

Q. So I would like to have you now describe the fruit which is grown on your ranch, or the ranch of your associate, Mr. Anderson, which you are familiar with, and which is grown under this plant patent 974. First, I would like you to describe the trees in the summertime, in July.

A. Well, the trees are of medium growth, and in relation to vigor, taking a leaf as part of the tree, the glands are globose.

Q. Now, as to the fruit on the tree in the sum-

(Testimony of James William Taylor.)

merit time, in July—maybe I am assuming something. Would you describe when the fruit comes on the tree, within some general range?

A. Well, I think the question may be misleading. You mean when the fruit matures, begins to mature, or——

Q. Yes, will you describe when the fruit is mature, or when it begins to mature, or however you want to describe it? [139]

A. The fruit ripens, now speaking of picking, picking ripe or commercial operation for market, the fruit matures about two to three weeks ahead of Albertas.

Q. Alberta?

A. Yes. Or LeGrand, which is the same as Alberta in the ripening period. We speak of LeGrand and Alberta as ripening approximately the same time.

Q. Now, do you happen to remember approximately the time in 1957 when your Sun Grand ripened, as to calendar date, or the ranges as to calendar dates?

A. No; I don't remember offhand, but for an exact date I would have to check records of picking time.

Q. Can you give it in a general range?

A. Approximately 8th and 10th—no; I don't remember for sure. I think the 8th and 10th, but I could be wrong.

Q. Of July? A. Of July, yes.

Q. All right. Now, going back to your descrip-

(Testimony of James William Taylor.)

tion of the Sun Grand, looking at the fruit of the Sun Grand a week or two beyond the medium ripening period, after the harvest is done on your ranch—see what I mean? A. Yes.

Q. And there may be a few fruits still left on the trees overlooked by the pickers, or left there for some reason, see what I mean? [140]

A. Yes.

Q. Now, would you describe that fruit on your Sun Grand trees about that time?

A. Well, you would have a yellow fleshed free-stone, red around the pit cavity with red extending into the flesh. It would, in many cases, be still firm because of the firmness of the variety, the surface being—well, the kernel of the pit would be bitter. Now, taking the fruit from the external view, the surface is extremely smooth, with predominantly red over-coloring, in many cases possibly completely red, but in many cases you would have some yellow portion, but predominantly red.

Q. Now, we were speaking of the taste awhile ago. Would you describe the taste and the content to the mouth of this Sun Grand fruit in your orchard that we have referred to?

A. The quality is good, but it has an acid, somewhat of an acid taste.

Q. Now, then, you have made reference in both the orchard that you examined on Mr. Hagler's ranch and the Sun Grands on your associate's ranch to globose glands, and described them both as having those glands. I want to ask you a general ques-

(Testimony of James William Taylor.)

tion about identification of trees by the number of glands of a given globose, reniform description. Do you have an opinion or is there any—— [141]

A. To my knowledge it is impossible to differentiate between varieties, in relation to the number of glands. The number of glands is variable, and I know of no identification system that uses that, or I have not been able to work it out myself.

Q. Have you made pointed efforts to observe the number of glands to determine the number of glands in your experimental work, to determine if you could develop some rule as to the number of glands being of significance?

A. Yes; upon many occasions when problems occur within our own orchard, within nursery mixtures, I have tried to determine the number of glands.

Q. And have you ever been able to come to any justifiable conclusion to identify by number of glands?

A. I have not.

Q. Now, did Mr. Anderson bring to your attention in the first part of July, this year, some fruit samples?

A. Yes; he brought some fruit samples to me.

Q. And he had certain fruit samples from the L. A. Hagler ranch, or so described to you?

A. He gave me some fruits, that were divided into different groups.

Q. Yes. And about what time was that?

A. Oh, I believe about the 10th or thereabouts of July.

(Testimony of James William Taylor.)

Q. And what did you do with that fruit? [142]

A. I put them in our refrigeration unit, which is in the basement of my house.

Q. And at what temperature did you keep the fruit, approximately?

A. Our temperature ranges from 36 to 38, approximately.

Q. And did you freeze the fruit?

A. No; they were not frozen.

Q. Why didn't you freeze the fruit?

A. Well, when fruit is frozen the use for positive identification loses its value, because of the change in color, and possibly some changes in shape when you remove it from the frozen condition.

Q. Now, then, did you have occasion to take photographs—strike that. Did you have occasion to pick representative samples of Sun Grands under this plant patent 974 from Mr. Anderson's orchard there under your supervision?

A. Yes; at about that time I also collected, or picked a large sample of Sun Grand nectarines.

Q. And did you keep those samples in the same refrigeration as the samples Mr. Anderson had brought you?

A. Yes; I had the boxes adjacent to one another.

Q. Did you keep them separate?

A. Yes.

Q. Now, in September, did you have occasion to take pictures of these fruits? You give me the date.

(Testimony of James William Taylor.)

A. Yes; a good number of them were [143] deteriorating because of the time they had been in storage. It was some two months later, and soft fruit doesn't stand up too long.

Q. You did take pictures?

A. And I took pictures.

Q. Now, did you pick out samples that were in a—well, you tell me what samples you picked out?

A. I selected representative samples of the fruit that was left.

Q. And will you describe in what state of preservation the fruit was that you selected?

A. The exterior condition of the fruit that I selected was excellent, as far as the exterior.

Q. All right.

The Court: Let's have a brief recess while you are showing counsel the pictures.

(A short recess was taken.)

The Court: All right.

Q. (By Mr. Shepard): I show you two photographs, Mr. Taylor, which purport to represent fruit, and one has a label on it, "Sun Grand," and the other has a label on it, "Red King."

A. Yes.

Q. Are you familiar with those photographs?

A. Yes; I am familiar with those photographs.

Q. Will you tell me about what time those [144] photographs were taken?

A. These photographs were taken in the first part of September.

(Testimony of James William Taylor.)

Q. Of this year? A. Of this year.

Q. Now, the photograph that is labeled "Sun Grand" has six fruit in it, is that correct?

A. That is right, there are six fruit.

Q. And what are the six fruits that were photographed there?

A. There were samples—selected samples that represented the Sun Grand, the collection of Sun Grand that I had at that time.

Q. And these were some of the Sun Grand that you had picked earlier in July, and kept in cold storage? A. That is right.

Q. And they had come from Mr. Anderson's ranch there? A. That is right.

Q. Did you, in taking these six fruits there, take and choose specific sizes or different sizes, or will you describe how you selected the sizes?

A. I selected a range in size from the fruit that I had left of the original collected samples.

Q. Do the six samples there represent a representative range of size of those that you had left? [145] A. Yes.

Q. Now, would you describe how the photographs were taken?

A. These photographs were taken with a 35 millimeter camera, with Kodacolor film.

Q. For the record, just a moment. Kodacolor, are you familiar enough to know that is any different from other colored film?

A. Yes. It is a type of film that develops into a negative, and not into a slide.

(Testimony of James William Taylor.)

Q. All right. Go ahead with your description of how they were taken.

A. They were taken with a 35 millimeter camera, set up at the right position, at the distance to suit the picture.

Q. Was the camera on a tripod?

A. No; I had it set up so it was solid, so it wouldn't move, set up at the correct height.

Q. And what was it set on, table, or books, or what?

A. No; where I was taking the pictures I had the height of a post.

Q. A post?

A. A post, that gave me the height.

Q. And where was the fruit with relation to the camera?

A. The fruit was set down on the top of a small made up table that I had.

Q. And approximately how far from the [146] camera?

A. As near as I remember it, three feet, as I remember it.

Q. All right.

A. I would have to go back and measure.

Q. Now, the particular thing, in taking the second picture, labeled "Red King," was that taken at the same time as the one labeled "Sun Grand," or within a few minutes of each other?

A. Yes; it was taken within the same time, in a few minutes, just enough time to change the fruit.

(Testimony of James William Taylor.)

Q. The table that you used, was that covered with a cloth?

A. Yes; it was covered with a black cloth.

Q. And was the same table used for each of those two pictures?

A. Yes; the same setup exactly, except the fruit was moved.

Q. The same cloth was on the table for each picture? A. Right.

Q. And the same thumbtacks?

A. Yes; the pictures should have been masked before they were enlarged.

Q. All right. Now, the label on there, is that a piece of cardboard, or something, laid down there?

A. Yes; just a piece of white paper.

Q. Now, were each of these photographs taken from the [147] same distance? A. Yes.

Q. In other words, was the camera moved between shots, or left in the same place?

A. The camera was moved, but was set back at the same place.

Q. Did you use the same lens aperture?

A. Yes.

Q. Did you use the same speed?

A. Yes; the settings on the camera were the same.

Q. And the same film, of course?

A. Yes.

Q. I suppose it was within the same roll of film? A. Yes.

Q. Now, I would like to have these—well, maybe

(Testimony of James William Taylor.)

I haven't identified the second one yet. The one called Red King there, what fruit is in that picture?

A. The so-called Red King fruit that Mr. Anderson left with me.

Q. And that was the fruit that Mr. Anderson brought from the Hagler ranch?

A. From the Hagler ranch, right.

Q. And did you take representative samples of that fruit to put in this picture?

A. Yes. [148]

Q. Now, those pictures, insofar as they go, do they fairly portray the fruit that was photographed in those pictures? Did you get my question?

A. No; I didn't.

The Court: Are they a correct representation of the fruit?

A. Oh, yes; it is representative of the sample.

Q. (By Mr. Shepard): No, I am not asking that. Do the pictures fairly portray the fruit that you took pictures of?

A. Oh, yes; the pictures portray the fruit as they were, yes.

Mr. Shepard: I will ask they be introduced.

The Court: All right. Then the one you spoke of first——

Mr. Shepard: That is the Sun Grand.

The Court: ——that will be received as——

The Clerk: Plaintiff's Exhibit 5.

The Court: ——5, and this one will be marked as 6.

(Testimony of James William Taylor.)

Mr. Shepard: Just let me write those down, your Honor.

(The pictures referred to were marked as Plaintiff's Exhibits 5 and 6, respectively, and were received in evidence.)

Q. (By Mr. Shepard): Now, the fruit that is grown under plant patent 974, the Sun Grand, would you describe the suture, representative suture line on those two? [149]

A. The suture ventral, meaning suture where the lips of the fruit come together, is slightly suppressed, especially towards the apex.

Q. Does it go beyond the apex?

A. Yes, it goes beyond the apex, in most cases beyond. In discussing the suture, you have a range again within different fruits, in that the suture will be slightly more suppressed, slightly longer, slightly beyond the apex.

Q. And the suture description, is that what you classify as qualitative or quantitative difference?

A. It is a quantitative difference, and is variable with its depth.

Q. Now, the accused fruit which you saw at the Hagler ranch in the summer of 1957, will you describe the suture line as you recall it on that fruit?

A. The suture, as I recall it, was the same as that of the Sun Grand.

Q. As you have previously described?

A. As I previously described as to the Sun Grand.

(Testimony of James William Taylor.)

Q. Now, with reference to the apex, which is apparently used in some descriptions, is that a quantitative or qualitative characteristic?

A. The apex is a quantitative characteristic, which varies within a range of fruit from a said variety.

Q. Now, as to the Sun Grand, would you describe as best [150] you can, the range of the apex characteristic in the Sun Grand?

A. The apex varies from being flat, or nearly so, to protrusions, a small point, or a point.

Q. In other words, on some Sun Grands the apex would be almost flat, you wouldn't see any point?

A. That is right.

Q. On other Sun Grands you might see a small point on the apex?

A. Yes, it can be quite a little point.

Q. All right. Now, will you describe the apex you saw on the accused fruit at the Hagler ranch in 1957, as you recall?

A. As I recall, the range would be somewhat—would be the same; there would be some flat to a slight—

Q. Did you see a point on some of them?

A. Well, there would be points, not large points, but small, protruding points.

Q. What is that point? Is that the residual of some earlier stage on the fruit?

A. Yes, the piece of—there is a little hair piece that hangs on the end, if the fruit has not been particularly disturbed, which is part of the style,

(Testimony of James William Taylor.)

which is part of the pistil, the long part of the pistil, and that part dries up in the center of the flower which develops into the fruit, [151] the extended portion is the style.

Q. On some of the fruit there is a slight remnant or trace of that pistil point there, is that it?

A. Oh, I don't remember, but in most fruits you can find it upon occasion. I don't remember though.

Mr. Griswold: What was that last answer? I don't remember what?

The Witness: I don't remember from a year ago seeing the fragment on the end.

Mr. Griswold: Were you speaking about the Hagler fruit?

Q. (By Mr. Shepard): You were speaking of the Hagler fruit?

A. Well, the question——

Mr. Shepard: Maybe we better go back again. Would you read the question?

(Record read.)

A. That was a sort of statement there, but I believe the question was on that same basis.

Q. (By Mr. Shepard): What I started to ask you, to start all over again, was whether or not this pistil or flower which you said ultimately is the spot where the apex on the fruit develops, some of the fruit have a small point, and whether you might say that is a slight remnant or clue to the pistil that used to be there? [152]

A. Well, I am not referring to the point in that

(Testimony of James William Taylor.)

particular assertion; I am referring to a little thread-like bit of dried material that sometimes hangs onto the fruit.

Q. Oh, I see. All right.

A. Not to the point of the apex.

Q. All right. Now, referring to the photographs in front of you, Exhibit 5 being the Sun Grand and Exhibit 6 being the Red King, do you find an apex with a point on either of the fruit, or among the fruit of the two photographs?

A. I find some fruits with points.

Q. Would you describe that, or point it out?

A. Well, for instance in this picture here you have a small point.

Q. You are referring to——

A. I am referring to the Sun Grand. You have a small point there (indicating).

Q. And what fruit is that in the picture, the upper?

A. The upper middle, upper center.

Q. Upper center. And likewise in the Red King do you find points of the apex, or not?

A. Yes, there are points in the right lower, there is certainly a point.

Q. And do you find other fruit with what you call flat apexes?

A. Well, the apexes that aren't protruding, essentially [153] flat, you have the lower right in the Sun Grand.

Q. Picture?

A. Picture, right. Fruit in the lower right of

(Testimony of James William Taylor.)

the Sun Grand picture. In the lower left there is very little, if any.

Q. And you are referring to the Red King?

A. To the one called Red King, at the bottom.

Q. Now, one final word about the fruit in those pictures. You said they were representative. However, among the Sun Grand, would you expect to find extremes of sizes not shown in those pictures?

A. Oh, yes. You find extremes of sizes according to cultural conditions which can make an abnormally large or an abnormally small fruit.

Q. Are there Sun Grands that are smaller than those shown in the picture? A. Right.

Q. And are there Sun Grands that are larger?

A. Yes.

Q. And likewise as to the Red Kings that you saw in 1957, and also among the fruit that Mr. Anderson left with you, the samples, were there smaller fruit?

A. Yes, there were smaller fruit.

Q. And larger fruit?

A. And larger fruit, yes. [154]

Mr. Shepard: I think that is all the questions. You may cross-examine.

The Court: Go ahead, I want to finish with this witness. We are moving very, very slowly, gentlemen.

Cross-Examination

By Mr. Houk:

Q. Mr. Taylor, according to your testimony,

(Testimony of James William Taylor.)

then you have been with Mr. Anderson since 1953?

A. That is correct.

Q. And you did this type of work then for a period of approximately four or five years?

A. What do you speak of, "this type of work"?

Q. That you are in right now, the work you have been doing for Mr. Anderson?

A. In the exact job.

Q. Have you been doing other work here?

A. No.

Q. Then this is the type of work you have been doing for the past four or five years?

A. Yes.

Q. Now, how long have you been taking aerial photographs?

A. Well, my first experience, extensive experience, was in Hawaii. We used the aerial photographs in our complete fertilization on a plantation I was on.

Q. How long have you been taking pictures of blossoms [155] by aerial photography?

A. This is the first year I have taken them extensively.

Q. Is that the general way of ascertaining the type of trees, or the type of blossoms?

A. No, sir.

Q. You made the statement that you had written a report and also a paper, and there was a report that was printed on peaches and nectarines, is that correct?

(Testimony of James William Taylor.)

A. They were both in relation to peaches and nectarines.

Q. Yes. Well, which one was it that you said—oh, they were both? A. Yes.

Q. One was a paper and one was a report, is that correct?

A. Well, yes, they were both—depending on the definition of “paper.”

Q. I see. It was the second one you mentioned that I am interested in. Where was that published?

A. It is the Pomology Association of America, Oregon, the Horticultural Variety Digest.

Q. And do you know what issue it was in?

A. The recent issue.

Q. And you do know which one it was, the date or the number?

A. No, I don't offhand. I would have to check the number. It is an irregular publication, and I am not sure how many [156] were published this year.

Q. Do you know how often they come out?

A. It is not a—they try to bring out so many a year, but it is irregular.

Q. It was in a recent issue?

A. In the recent issue.

Q. Yes. Prior to your entering into the employment of Mr. Anderson, did you have any knowledge of any kind whatsoever regarding the plant patent 974, which we call the Sun Grand?

A. No, sir.

Q. Now, these particular examinations that you

(Testimony of James William Taylor.)

made to ascertain the things you have testified to, do they consist of each and everything that you did? Is there anything else that you can think of that you did?

A. Well, I have a normal routine in observing varieties and working with a variety, and this was a variety I was observing, and as my memory goes here that was the way, or those were the things that I observed. However, I look at all the things.

Q. Is there anything else that you did that you can remember that you have not testified to here today?

A. Not that I remember.

Q. Did you make all the measurable characteristics that you felt were necessary? [157]

A. I didn't make any measurements, **actual** measurements in inches or centimeters, because measurements in inches and centimeters are misleading in a case such as this.

Q. You did not make any measurements?

A. No, I did not.

Q. When did you make this aerial trip, or this trip that you took this aerial photography work over Mr. Hagler's ranch?

A. Oh, approximately the first week of March, I don't remember the exact date.

Q. What time of day did you go?

A. Oh, I don't remember the exact time. We started some time in the morning, as far as I remember, and made the flight. I don't remember. It was one series of pictures out of many.

(Testimony of James William Taylor.)

Q. Well, do you remember what time you took the picture?

A. I would have to check back on that.

The Court: Was it the morning or the afternoon? It is not so far away that you wouldn't remember.

The Witness: As far as I remember it was in the morning.

Q. (By Mr. Houk): It was in the morning?

A. Yes.

Q. Do you know what kind of weather there was?

A. Oh, as I remember, there were some [158] clouds.

Q. Was the sun shining at the time you took the picture?

A. Well, there was sun shining. Where you have clouds you have intervals of sun.

Q. Was there any sun shining at the time you took the picture? A. Yes.

Q. And which way did you take the picture? Which way were you traveling when the picture was taken?

A. Well, there were a number of pictures, and they were taken from different——

Q. I am talking about the picture you took of this orchard.

A. It was taken from the west, as I remember.

Q. Mr. Taylor, that is the only picture I am going to be talking about. A. Excuse me.

Q. Now, when you took that picture, the one

(Testimony of James William Taylor.)

you have testified to, which way was the plane going?

Mr. Shepard: Maybe we better get the picture out.

The Court: That is all right, he remembers it. Go ahead. Can you tell? You want to look at the picture? All right, Mr. Eiland, show the picture to the witness.

A. I think the plane was going north, as I remember, although I could be wrong on that, because of the—no, it was the one before. As I remember it, we were coming from the [159] south, going north, but that is memory at this point.

Q. (By Mr. Houk): Well, have you any other method than memory to determine which way you were going? A. No, sir.

Q. Did you make a note on this trip that you made, as to the date you went?

A. Yes, I have notes.

Q. Do you have notes as to which way your plane was going?

A. No, I don't believe so.

Q. Well, when you were down there, at the time you went down and were on the property—withdraw that question. When you took this picture, and you looked down and looked at the blossoms, how big a spot of blossoms did you see, as near as you can remember the size?

A. Well, when you look out an airplane window you have a broad area, you don't have a—you see a great expanse of area of many blocks.

(Testimony of James William Taylor.)

Q. How big was the block of blossoms you were interested in taking a picture of?

A. It's the—observation from the air, I would say, oh, roughly, ten acres, but it is an estimation. From the picture you can count the tree numbers if you want.

Q. These blossoms that you took a picture of, were there [160] more than one kind of blossoms?

A. Well, as I remember, there was this particular block—not this particular block, but there was an arrangement of area that was pink, pink in color, and the general aspect of the area gives the effect of a pink over-all color.

Q. Well, was there more than one color, or just one color?

A. Well, as far as looking at it from—in that particular block—are you speaking now of the particular block?

Q. I am speaking of the blossoms that are shown in the picture that you took.

A. Let's verify that.

Q. You show me the blossoms there that you were going to take a picture of.

A. Well, I was taking a general picture across this area of the landscape.

Q. All right. Now, you point out to me then in this picture where the blossoms are?

A. Well, this block here would be of the pink type, and this block here.

Q. All right. Now, these would all be pink?

(Testimony of James William Taylor.)

A. Right.

Q. Referring to the—were there any other blossoms in this immediate vicinity, we will say?

A. Well, I don't remember at this time, just what else [161] there was at this time.

Q. Well, then, how did you pick out this particular block that you mentioned were of large size?

A. Because of the characteristics in comparison to other blossoms I know of in large flowers.

Q. Were there any other blossoms near there different than those you saw?

A. I don't remember at this time what else there was.

Q. You don't remember what else was there?

The Court: You keep repeating the answer, and the witness doesn't know whether it is a new question, or what. We all fall into that habit.

Q. (By Mr. Houk): Mr. Taylor, when you looked at the trees and examined the glands, did you count the glands on the leaves of any of the trees of Mr. Hagler?

A. Upon looking at glands, I look at the ones that are most protruded, or the larger glands, to give the type I am hunting for. Then, of course, I scan at the same time the number of glands.

Q. Did you count them?

A. I don't remember doing so particularly, because so far as I know the number of glands does not—isn't a reliable characteristic between varieties.

Q. My Taylor, how many kinds of nectarines

(Testimony of James William Taylor.)

have large [162] flowers? Would you estimate that for us?

A. Oh, the large proportion of the varieties have large flowers.

Q. And the others have small or medium?

A. Small and medium, depending on variety.

Q. At that time when you were there did you take any fruit with you?

A. I did not take any fruit with me.

Q. Did anybody else, as far as you know?

A. I don't remember.

Q. When you were down there this time making this examination, did you make any notes or record this trip of any kind?

A. I believe that I did.

Q. And do you know where they are?

A. I would have to go back and check. I am not sure.

Q. You don't have any of them with you?

A. I do not have any with me.

Q. These pictures that you have testified to, Sun Grand and Red King, that were taken by you, how many Red King fruit did you have when you first got the fruit?

A. I didn't count them exactly.

Q. How many would you say? Could you estimate it for us, how many you had?

A. Oh, they were set into baskets, into three flats. [163]

The Court: I didn't hear the answer.

The Witness: Oh, I would guess 60 to 70 fruits,

(Testimony of James William Taylor.)

although that is very approximate, because it could be more, or less.

The Court: Where were they, in boxes or baskets?

The Witness: In baskets in a box.

Q. (By Mr. Houk): How many did you have left after you picked out the ones that you took the picture of?

The Court: He said he doesn't know. What have you got on the picture, six?

The Witness: Yes.

The Court: He doesn't remember the exact amount.

Mr. Houk: Well, if the Court please, I asked how many were left when he got through, whether he used the last six of the fruit.

The Court: No, he said he picked six with the characteristics, isn't that what you said?

The Witness: Yes, sir.

The Court: Well, do you remember how many there were left?

The Witness: There were several left; I didn't count them.

The Court: I see; all right.

Q. (By Mr. Houk): How many Sun Grands did you have to begin with?

A. I had a lug box, field lug box. [164]

Q. And were most of those gone before you picked these out?

A. Yes.

Q. That you selected?

A. There were a number of those decayed.

(Testimony of James William Taylor.)

Q. So of the few left when you got through, you discarded those after you picked out the ones you wanted?

A. There was a proportion of those left also.

Q. When did you get this fruit? When did you get the Red King fruit? Approximately?

A. The Red King fruit, as I remember it, the first part of July, about July the 10th.

Q. And the Sun Grand?

A. I picked them shortly thereafter.

Q. And where did you get them from, from what locality?

A. Mr. Anderson's block at LeGrand.

Q. At LeGrand? A. Yes.

Mr. Shepard: I want to interject, if I may. I inadvertently forgot to introduce two photographs of fruit, which I would like to, because they were done by a different photographer and I don't want Mr. Houk to think that I intentionally left these out, in his cross-examination. I completely forgot about these other photographs here.

The Court: Did he take them? [165]

Mr. Shepard: No, they were taken by another photographer when he was present, your Honor, in his presence.

The Court: Well, unless either side wants them in, I don't see the purpose.

Mr. Shepard: Well, I do want to put them——

The Court: Well, you can do that.

Mr. Shepard: ——and I just didn't want Mr. Houk to be misled.

(Testimony of James William Taylor.)

The Court: You can do that on redirect.

Mr. Shepard: Yes, thank you.

Q. (By Mr. Houk): Mr. Taylor, I think in your testimony you stated that if one type of fruit is grown in different areas it would probably come out somewhat different, is that correct?

A. Yes, there are variations within area, within particular varieties grown in different areas.

Q. Is there much variation between this place where Mr. Anderson grew his Sun Grand fruit, and we will say the south part of the Valley here?

A. No.

Q. There would be no variation there at all?

A. Oh, no great variation. There will be a variation within two blocks that are adjacent under different cultural practices right adjacent, so you do have very small, minute variations. [166]

Q. Well, then, there isn't much variation, is that correct, in areas between nectarines, one grown in LeGrand and one in Tulare County? There wouldn't be much variation, is that correct?

A. It all depends upon, if there is—in qualitative characteristics there isn't.

The Court: In the characteristics of the fruit.

The Witness: In qualitative characteristics of the fruit there aren't differences, great differences, but in quantitative characteristics there are some.

The Court: Depending on the soil or the climate?

The Witness: Depending on the soil, the climate, the position within the tree of the fruit, the pruning, the thinning, all have effects on the fruit.

(Testimony of James William Taylor.)

The Court: I see. That is true of all fruit grown in semi-tropical areas?

The Witness: Yes, it is true of all fruits.

The Court: They grow by irrigation. These are irrigated?

The Witness: That is right.

The Court: All right. Anything further?

Mr. Houk: Just a couple more questions.

Q. Mr. Taylor, isn't it true that if fruit is grown in other localities it is very likely there would be some characteristics that would be different?

A. Yes. We might take the length of a fruit variety as you go south, taking great [167] distances.

Q. And one of the best ways to determine the type of fruit, and so forth, is to have the fruit in different stages to examine and test, isn't that right?

A. Well, a fruit is a fruit, if the stage is comparable, if the factors are comparable.

Q. It wouldn't make any difference when you examined it? A. Did I?

Q. No; I am asking you, would it make any difference if you examined the fruit just once, or whether if you could follow the fruit through its process of growing and ripening you could test it then, or if one examination would be sufficient?

A. Well, on a general—on the specific qualitative characteristics one examination is sufficient. On the quantitative characteristics certain of them

(Testimony of James William Taylor.)

would be obvious throughout the ripening period, throughout the period. Certain of them change slightly from the green coloring to the senescent period.

A. Are there any other pictures that you have taken, other than those shown there of the fruit, that you took yourself?

A. I don't have any here.

Q. Well, are there any that you did take at any other time?

A. Well, any photographer, as you are taking a picture, [168] you bracket high and bracket lower in case you are off on your lighting.

Q. Well, did you take any other pictures——

A. That is what I said.

Q. ——other than the pictures there?

A. Yes; I took other pictures.

Q. All right, when did you take them?

A. At the same time.

Q. That's what I wanted to get at. Were there any other times that you took any pictures?

A. No.

Q. All the pictures were taken at the same time? A. Yes.

Q. Now, were there any other pictures, other than these, taken by any other person when you were present?

A. Those are the only ones—excuse me. There was one other four by five which hasn't come back from the color people, but——

Q. That was taken when?

(Testimony of James William Taylor.)

A. At the same time.

Q. As this?

A. Yes; said group, at the same time.

Q. And the same photographer?

A. Yes.

Q. Now, you mentioned you took some notes?
Do you [169] have those notes available?

A. Which ones?

Q. Of any of this—any of these examinations?

The Court: He has not used them to refresh his recollection, therefore, you are not entitled to see them.

Mr. Houk: Well, we would like to ask him to bring them to court.

The Court: I am not going to allow him to do that. He is not using them to refresh his recollection, therefore, you are not entitled to see them.

Mr. Houk: Very well.

The Court: If he had used them to refresh his recollection, you might see them, but so long as he does not those are his property and you have no right to look at them.

Mr. Houk: We have no further questions.

Mr. Shepard: May I take time to introduce these?

The Court: Yes.

Redirect Examination

By Mr. Shepard:

Q. Mr. Taylor, I overlooked the photographs I place before you now, which you gave me the nega-

(Testimony of James William Taylor.)

tive of a couple of days ago, last week. The pictures you have there now were taken where?

A. They were taken in a studio in Merced.

Q. In relation to time, do you remember the same day or [170] different days as Exhibits 5 and 6?

A. The same day.

Q. The same day you took Exhibits 5 and 6?

A. Yes.

Q. You live in LeGrand, a short distance from Merced?

A. That's right.

Q. And the same day you took samples into a commercial photographer?

A. Commercial photographer.

Q. And without going through all the details again, did you take the same type of representative samples from the remaining good fruit of Sun Grand and the accused variety?

A. Yes; I took——

Q. Now, were you present when these two photographs were taken?

A. Yes; I placed the fruit in position on their table.

Q. And do you know what kind of camera was used?

A. Yes; these were taken with a 35 millimeter camera also.

Q. And how was that camera placed?

A. It was on a tripod set facing down onto it.

Q. To the table?

A. To a low table, yes.

(Testimony of James William Taylor.)

Q. And the background of the table in these pictures is what? [171]

A. It is cardboard, heavy cardboard.

Q. And again, do you have any better memory as to the approximate distance of the camera from the subject on the tripod?

A. No; I think a little farther away, as I remember, but I don't remember, about four feet.

Q. Did you observe the camera in each of the photographs as to setting of time, speed, aperture, and so forth?

A. Yes; for these the camera wasn't changed as it was set.

Q. No; I am talking about the speeds of the lens, the aperture of the lens, and the magnification distance.

A. Yes; the timing, the distance was standard, because it was set on a tripod, the camera was on a tripod.

Q. Were all of those factors the same to your observation of the camera in each of these photographs? A. Yes.

Q. And the fruit was placed on the same table, and in as much the same location as humanly possible? A. Yes; I placed it there.

Q. And did those pictures, with their different white backgrounds fairly portray the fruit which was photographed in those pictures?

A. Yes.

Q. And specifically, the one labelled Sun Grand

(Testimony of James William Taylor.)

is the [172] fruit which came from Mr. Anderson's orchard and which was in the refrigerator for a couple of months, is that right? A. Yes.

Q. And the one labelled Red King is the accused fruit which Mr. Anderson brought you samples of on about July 10th and which you kept in the refrigerator for a like period?

A. Right, and the purpose of the photograph—this is super Ansco type of film.

Q. Oh, yes, the type of film——

A. It is a different type of film.

Q. And has a slightly different color variation, or not?

A. Well, yes, there is a slight different color variation there.

Q. Is it true that color photography is not necessarily an exact duplicate replica of the color tones as they appear to the human eye?

A. That's right.

Q. It is as close as the commercial laboratories can get, but there is a variance between films?

A. It is variable between films.

Mr. Shepard: I would like to introduce those photographs.

The Court: All right, they may be received. Let's put them in the same order, the Sun Grand will be 7, and the other will be 8.

(The photographs referred to were marked as Plaintiff's Exhibits 7 and 8, respectively, and were received in evidence.) [173]

(Testimony of James William Taylor.)

Mr. Shepard: Thank you, your Honor.

The Court: All right, anything further?

Mr. Shepard: No, your Honor.

Mr. Houk: We would like to ask one or two questions, your Honor.

The Court: Go ahead. Make it one or two. Gentlemen, I don't want to crowd you, but we must move a little faster. I don't know how many experts they have but if we take one day with each expert, we are going to take what, in my opinion, is an unnecessarily long time to present the evidence in this case. I can enjoy leisure myself but this is a very fast moving court, there are cases behind you. That is why I am not looking at the clock and I want you to finish with this witness. Go ahead.

Recross-Examination

By Mr. Houk:

Q. Mr. Taylor, this was taken of the same fruit that you took in the other picture? Is that correct?

A. The samples are from the same fruit.

The Court: No; it wasn't the same fruit.

The Witness: No; it was——

The Court: It was different fruit.

The Witness: The fruit I took into Merced broke down before I was able to use it.

The Court: Yes. No, no, it wasn't the same fruit; it [174] was from the same batch, is that true?

(Testimony of James William Taylor.)

The Witness: Yes; that is right, the same batch.

The Court: And you took different samples?

The Witness: That is right, because they broke down.

The Court: Yes. All right.

Q. (By Mr. Houk): Now, if you were asked to make a designation, or to pick out a fruit to designate the type of fruit, would you be willing to base that on just a picture like that that you have there? If I presented you a picture of a different type of nectarine just like that, would you feel that would be sufficient for you to make a designation of it? A. No; I do not.

Mr. Houk: That is all.

The Court: All right; 2:00 o'clock.

(Thereupon, at 12:30 p.m. a recess was taken to 2:00 p.m. of the same day.) [175]

Afternoon Session—2:00 P.M.

The Court: All right, gentlemen.

Mr. Shepard: We will call Mr. Howard Stafford.

HOWARD STAFFORD

called as a witness by plaintiff, having been first duly sworn, was examined and testified as follows:

The Clerk: State your full name, please.

The Witness: Howard Brown Stafford.

Direct Examination

By Mr. Shepard:

Q. Mr. Stafford, where do you live?

(Testimony of Howard Stafford.)

A. 3922 North Fruit Avenue, Fresno, California.

Q. Mr. Stafford, what is your business or occupation?

A. I am a nurseryman. I manage the Reedley Nursery, Incorporated, Reedley, California.

Q. Is that also known as Kim Brothers?

A. That is right; it is, part of the Kim Brothers organization.

Q. Yes. And how long have you been the manager of the nursery part of the Kim organization?

A. Something like 12 years.

Q. Now, as part of the nursery business do you sell patented varieties of nectarines?

A. I do. [176]

Q. And particularly I draw your attention to plant patent 974, in evidence here, which has been referred to as Sun Grand nectarine. Have you supervised and as the years have gone by overseen the sales of Sun Grand nectarine trees?

A. I have.

Q. The Sun Grand nectarine, plant patent 974, when was the first time that was sold as a commercial product to the nursery, approximately?

A. Approximately during the 1950-51 season, as I remember it.

Q. And then has the nursery stock of the Sun Grand nectarine been sold by your organization in the following years? A. It has.

Q. And during such time that you have sold

(Testimony of Howard Stafford.)

the nectarine in question to the public, has it been labeled with the patent number?

A. It has. It has been labeled with the name, the patent number, and a warning about asexual dissemination.

Q. Now, particularly within the last recent years, the last three or four years, would you describe generally the amount of your Sun Grand nectarine sales, how much or how popular?

A. Well, I can't give it to you in figures here, because [177] I do not have them, but it is one of the main varieties that we have, one of the best sellers. It is considered by the trade to be one of the best commercial varieties of nectarines.

Q. In recent years have your sales grown, or stayed the same, or diminished, or would you care to state in that regard?

A. Well, I will have to say that the last two years have not been as good as it was—I am including the coming year—have not been quite as well in all nursery production as the two seasons ago, but in proportion to the amount of sales of other varieties the Sun Grand still is up among the top in regard to sales.

The Court: Do you know in a good year what the sales amount to, in a general way?

The Witness: Oh, this is a general statement; in our best years we probably sold as many as 25,000 trees of Sun Grand.

The Court: And what is the price at which they sell?

(Testimony of Howard Stafford.)

The Witness: Three dollars each.

The Court: And how old is the tree when you sell it?

The Witness: The tree that we sell is a June Bud which takes us a matter of a little less than a year to develop from seed. In other words, the seed is planted in the spring or the preceding fall, but generally we use spring [178] plant, and it is budded during the months of May and June, the bud forced out, and the tree grown until the following winter, until the dormant period, when we dig the tree and deliver it to the customer.

Mr. Shepard: That is all the questions I have. You may cross-examine.

Cross-Examination

By Mr. Griswold:

Q. Do you know when you first got the Sun Grand tree from Mr. Anderson?

A. Well, as I stated in my statement, as I remember, the first sale of trees was during the 1950-51 season, which would necessarily mean that we probably got buds during the summer of 1950. That could be one year later, I am not positive, but that is as near as I remember.

Q. Did you get a tree from Mr. Anderson, or a bud? A. A bud one.

Q. Now, you have a record of all of the sales that you made of the plant 974? A. We do.

Q. And you have checked your records, have

(Testimony of Howard Stafford.)

you not, for the purpose of deposition, of this trial, as far as sales of Sun Grand? A. To who?

Q. Well, particularly to the defendant, L. A. Hagler. [179] A. I did.

Q. And what did your records disclose as far as any sales to L. A. Hagler?

A. Of Sun Grand, none.

Q. At no time? A. At no time.

Q. That is, of course, plant patent 974?

A. That is right.

Q. You are acquainted with Hunter brothers, are you not? A. I am.

Q. Their ranch, for purposes of identification, is near the Hagler ranch?

A. That is right, east of the Hagler ranch.

Q. What does your record show as far as sales to the Hunter brothers of plant 974?

A. No sales of Sun Grand to Mr. Hunter, or the Hunter brothers.

Q. Do you know George Kozuki?

A. George Kozuki, I do.

Q. Do you know whether or not you have made sales of Sun Grand to him?

A. I could not recall at this time.

Q. Can you check your records and report tomorrow morning? A. I can.

Mr. Shepard: How do you spell that name, counsel? [180]

Mr. Griswold: K-o-z-u-k-i.

Q. And do you know Harry Hiraoka?

(Testimony of Howard Stafford.)

A. Hiraoka, I do.

Q. Do you know whether you sold any plant 974 to him?

A. I would still have to check my records on that.

Q. And will you do that and have the records available tomorrow morning?

A. Yes.

Mr. Griswold: Thank you.

Redirect Examination

By Mr. Shepard:

Q. One other question, Mr. Stafford. Apparently it goes without saying, but for the record, do you show any license to the defendant, L. A. Hagler, to reproduce or grow Sun Grand nectarines, plant patent 974?

A. We do not.

Q. And you people have the exclusive patent? You have obtained the exclusive patent rights on that?

A. That is right.

Mr. Shepard: Thank you. That is all.

The Court: All right, Mr. Stafford, step down. Call your next witness.

Mr. Shepard: I would like only one other question. We propose to call Mr. Hagler—perhaps we could do it by stipulation—simply to ask Mr. Hagler if he has sold and [181] shipped fruit from the block in question here. I don't intend to go into the amount.

Mr. Griswold: Well, we can stipulate that we

have sold fruit from trees which we call Red King, under our patent which we will introduce, we have shipped, and under the designation——

The Court: He is not asking you to commit yourself to anything except the fact that shipments were made.

Mr. Griswold: Can I see the photograph in evidence?

Mr. Shepard: Yes.

Mr. Griswold: I think maybe you better question the witness, Mr. Shepard.

Mr. Shepard: We will call Mr. Hagler under 43(b).

The Court: All right.

LYLE ADRIAN HAGLER

called as a witness by the plaintiff under the provisions of Section 43(b) of the Federal Rules of Civil Procedure, having been first duly sworn, was examined and testified as follows:

The Clerk: State your full name, please.

The Witness: Lyle Adrian Hagler.

Direct Examination

By Mr. Shepard:

Q. Mr. Hagler, you are the owner of a ranch in Tulare County? A. Yes, sir. [182]

Q. And on that ranch you have different varieties of fruit trees? A. Yes, sir.

Q. Where is the ranch located?

(Testimony of Lyle Adrian Hagler.)

A. Well, about eight miles west of Visalia, and a mile south, Road 68 off 198.

Q. The photograph which was just displayed to you, Plaintiff's Exhibit 4—

A. I didn't quite understand this.

Q. Let me explain what has been testified to.

A. Yes.

Q. The horizontal line at the bottom of the photograph has been indicated as a fence line, that has power poles along there.

A. This is west?

Q. West is the bottom of the picture.

A. This way, yes.

Q. This blue line is the drainage canal that runs east and west? A. Yes.

Q. And the horizontal line in the middle of the picture indicates an avenue down through the trees, or a breaking point?

A. According to that this would be north, then.

Q. Yes; to the left side of the picture is north, as I understand it, and the far background is in the east. [183]

A. And this canal here?

Q. Sir, that wasn't testified to, and I don't know what that is there.

A. It don't look just right, but I don't hardly follow this picture.

Q. Let me ask you, the road in front of your ranch house runs north and south?

A. Yes, sir.

(Testimony of Lyle Adrian Hagler.)

Q. And going down that road—what is the name of that road? A. Road 68.

Q. And going down that road to the south from your ranch house, what is the next cross road?

A. Well, I call it Caldwell Avenue. They have a different number, but I don't know the number.

Q. On the next road south there, if you were to turn to the right, about a half a mile, you would reach a portion of your ranch? A. Yes, sir.

Q. And if you were to keep on to the right until the first cross street coming up from the south that abuts into Caldwell Avenue and dead-ends there—— A. Yes.

Q. And an extension of that road to the north there is a fence line with telephone poles [184] along? A. Yes.

Q. Going up that fence line some distance you would come to a drainage canal, or a canal there?

A. Yes, sir.

Q. And you have a block of fruit trees which ends at the northern boundary of the canal?

A. That is right.

Q. And the western boundary, these power poles? A. That is right.

Q. Now, directly in the corner of that boundary line and up adjacent to the canal you have one row of trees which I believe you denote as Gold Kings? A. Yes, sir.

Q. And then you have immediately after the row of Gold Kings an additional block, approximately 22 rows, of another variety?

(Testimony of Lyle Adrian Hagler.)

A. I believe it is. I have forgotten now the exact number.

Q. And you call those Red Kings?

A. Yes, sir.

Q. And those in number, do you remember the number, approximately of those?

A. I believe I counted 968 trees.

Q. Yes. Now, in that block of trees, sir, this summer Mr. Anderson and Mr. Savage and Mr. Houk and yourself, in [185] the first days of July, went to take some samples. Do you recall that?

A. Yes, we did.

Q. I don't know whether you took any, but you permitted Mr. Anderson and Mr. Savage to take some samples?

A. Yes, we kept a tree for them, when we were picking we kept a separate tree so they could get a good sample.

Q. Now, in addition to those blocks of 968 trees, there are about five more rows, sir, immediately to the south which are younger Red Kings?

A. Yes.

Q. Just grafted in the winter of 1956-57, I believe?

A. No, February, '57, I believe.

Q. February, '57. Now, the larger block of 968 trees, you harvested when for the first time?

A. Well, the first harvest that we kept a record of all of them was in '57; we had a few in '56, but scattered.

Q. Right. Did you ship under the name of Red King in '56, or do you recall?

(Testimony of Lyle Adrian Hagler.)

A. I don't recall. I don't believe I did. I am not sure.

Q. In any event, in 1957 you did ship some quantity of Red Kings from that block I have just described? A. Yes, sir.

Q. And again in 1958? A. Yes, sir. [186]

Q. Without holding you to the detail, Mr. Hagler, of the exact number of tons, could you give us just a general approximation, and you can correct it later?

A. Well, in '57 it was just a little over 4,000; I have forgotten exactly.

Q. 4,000 lugs?

A. Yes, sir, and '58 was a little better than 4,200.

Mr. Shepard: That is all the questions we have, your Honor.

Mr. Griswold: No questions at this time.

The Court: All right; step down, Mr. Hagler.

Mr. Shepard: Now, your Honor, the plaintiff rests.

The Court: All right, call your first witness.

Mr. Griswold: We will call Mr. Kim.

The Court: Are you calling him as an adverse witness?

Mr. Griswold: Yes.

The Court: You must designate, because the record must show. All right.

HYENG (HARRY) S. KIM

the plaintiff, called as a witness by the defendant under the provisions of Section 43(b) of the Federal Rules of Civil Procedure, being first duly sworn, testified as follows:

The Clerk: Just state your full name, please.

The Witness: Hyeng S. Kim, Harry S. Kim, you know.

The Clerk: Have that seat there. [187]

Direct Examination

By Mr. Griswold:

Q. Your address, Mr. Kim? Where do you live?

A. I live in Reedley.

Q. And you are one of the partners of Kim Brothers, who brought this lawsuit?

A. That is right.

Q. And you are acquainted with Lyle Hagler, who was just on the witness stand?

The Court: Answer audibly.

A. I didn't hear.

Mr. Shepard: He said he didn't hear the question.

Q. (By Mr. Griswold): You are acquainted with Mr. Lyle Hagler, who was just on the witness stand?

The Court: Are you hard of hearing, Mr. Kim?

The Witness: Well, my hearing is very poor, you know.

The Court: Your hearing is poor. Well, all right, we will have counsel come closer.

(Testimony of Hyeng (Harry) S. Kim.)

Q. (By Mr. Griswold): You are acquainted with Mr. Hagler, Mr. Lyle Hagler?

A. Yes.

Q. And directing your attention to 1954, did you talk with Mr. Hagler about a new variety of nectarine that he claimed to have? [188]

A. Yes.

Q. Where did you and Mr. Hagler ever discuss that matter?

A. He came to my office and he show the nectarine.

Q. Where was your office?

A. My office is at 7th and I Streets.

The Court: Reedley?

Q. (By Mr. Griswold): In Reedley?

A. Yes, in Reedley.

Q. Who was there when you and Mr. Hagler talked?

A. Nobody was there except Mr. Hagler.

Q. Do you remember when in 1954?

A. I couldn't remember the date, you know, when it was.

Q. Well, was it wintertime or summertime?

A. I think it was about summertime, I believe.

Q. And am I correct that Mr. Hagler had something with him? A. Yes.

Q. What did he have?

A. Oh, he had some kind of new fruit, you know, he call and say very hard to identify at that time, you know; the size was small and fruit, you know, so he showed me that fruit.

(Testimony of Hyeng (Harry) S. Kim.)

Q. What did he tell you about the fruit?

A. He didn't tell me. He just show me the fruit, [189] what kind—what is my idea of what kind of variety.

Q. Didn't he tell you, to refresh your memory, that he had found a sport growth in the LeGrand orchard?

A. No, he didn't mention that. He says it is a new variety.

Q. And what did you say?

A. Well, he said that, you know; I can't deny it.

Q. Didn't you claim that it was the Red Grand?

A. No, I didn't claim that, and I thought it was like a Sun Grand or Red Grand.

Q. Is the Red Grand one of the patents that have been assigned to you? A. Yes.

Q. To refresh your memory, didn't you say "This is a Red Grand"?

A. No, I don't think I said that, because I don't know either one very clearly.

Mr. Griswold: I didn't get that. Miss Reporter, will you read it?

(Answer read.)

Q. Then did Mr. Hagler tell you that this was a freestone and the Red Grand was a clingstone?

A. He didn't mention about clingstone or free-stone; he just showed me.

Q. What else did you do that day when Mr. Hagler called [190] on you?

A. Well, he show me that, you know, so I says, you know, this is young tree or grafted tree, or

(Testimony of Hyeng (Harry) S. Kim.)

well developed, and I couldn't tell exactly what varieties they were.

Q. Am I correct that you told him that you didn't know what kind of variety it was?

A. Yes, that minute what kind of variety.

Q. Now, how long did you and he talk there?

A. Oh, I was busy, you know. I didn't talk very long.

Q. That was a friendly visit?

A. Well, of course, he was my customer and he come in once in awhile, we still friendly.

Q. You didn't know anything about what he claimed to be a new variety until he came that day? This is the first you knew? A. Yes.

Q. Following 1954, did you write any letters to Mr. Hagler? A. No, sir.

Q. Did you go down and look at the tree?

A. Whereabouts do you mean? Mr. Hagler or Mr. Hunter?

Q. When Mr. Hagler told you that he had found a new variety on a tree?

A. Yes, he said at that time, you know, that he found the fruit, you know, Mr. Hunter's orchard, so I went down in '54. [191]

Q. Who did you go with in 1954?

A. Myself, Mr. Anderson and Mr. Stafford.

Q. Did you talk with Mr. Hagler?

A. No, I didn't see Mr. Hagler there.

Q. Did you find the tree? A. Yes.

Q. Where was the tree? Or the trees?

(Testimony of Hyeng (Harry) S. Kim.)

A. Well, that trees are located in easterly row, on the second row, if my memory is correct.

Q. The eastern row, the second tree?

A. Second row of trees, yes. Two trees there. The easterly row, and the second row.

Q. And you found fruit. Did it look like the fruit that Mr. Hagler had shown you at your office in Reedley?

A. It seems to me that is quite different what I see Mr. Hagler's fruit, and where that grafted tree is fruit, that grafted tree is our Sun Grand.

Mr. Shepard: What is that answer, Miss Reporter; it is quite difficult to hear?

(Answer read.)

Q. (By Mr. Griswold): How many trees did you see that had fruit on them on this occasion?

A. Well, that time there was two Sun Grand trees, you know, and I—my observation was very cursory, and that is [192] all the Sun Grand, the two trees, what I saw that time, and these was grafted trees, and those two trees I looked at thoroughly is Sun Grand, and they graft on Sun Grand.

Q. You say you saw two trees that you identify as Sun Grand? A. Yes; at that time.

Q. How many had fruit on?

A. Well, they didn't look, about a maximum of two years, about year and a half, but not any tree crop, but they could get several good fruit there.

Q. Did both trees have fruit on them?

A. Well—

(Testimony of Hyeng (Harry) S. Kim.)

Q. Did both trees that you found to be Sun Grand——

A. ——I saw that time, you know, one tree is Sun Grand, is more fruit than any of the trees, you know, they graft over, and two trees I see is Sun Grand.

Q. Isn't Mr. Anderson your expert?

A. Yes.

Q. And you rely on him to tell you various varieties, do you not? A. Yes.

Q. And isn't that the reason you took him down to the orchard in 1954? A. Yes, sir.

Q. Did I misunderstand, you said something about—I [193] might have misunderstood—stealing some buds, Sun Grand buds, is that what you said?

A. I didn't say stealing; I said grafted.

Q. All right. Let's just concentrate on this tree, the eastern row, outside row, the second tree.

A. Second row of trees.

Q. In other words, the second row as you come east to west? A. Yes.

Q. But it is the outside row north and south?

A. Yes.

Q. What were the rest of the trees in that orchard?

A. The balance of orchard was LeGrand orchard.

Q. And that was Mr. Hunter's orchard?

A. Yes, sir.

Q. Now, isn't it true that you sold only LeGrand nectarine trees to Mr. Hunter for this orchard?

(Testimony of Hyeng (Harry) S. Kim.)

A. No, sir; we sold two varieties, LeGrand and the Red Grand.

Q. But no Sun Grand, or plant 974?

A. No, sir.

Q. How do you explain, as you say, that your Sun Grand bud or graft was on this tree which you identified as being the outside row and the second tree?

A. Well, we went down there, ride in car and get out of [194] car, and we go up and down the rows, you know, to find it, so finally we found the trees.

Q. But how do you explain—you say that you found the Sun Grand; how do you explain the Sun Grand being there?

A. Well, we search for the Sun Grand, and up and down the rows, you know, why, there we discovered it, there is Sun Grand.

Q. You sold no Sun Grand?

A. I sold, no, sir; I didn't sell the Sun Grand at all, to the gentleman.

Q. It is your testimony that there was a graft, a Sun Grand graft on this particular tree?

A. Yes, sir.

Q. How about this other tree, which you claim to be Sun Grand? Where was it located?

A. Near by, side of the tree.

Q. Which side? A. East side.

Q. The next tree? A. Yes.

Q. Which side, the east side?

A. Yes, the east side of where the Sun Grand is,

(Testimony of Hyeng (Harry) S. Kim.)

the next tree is east side of the Sun Grand where the fruit is.

Q. Did you take any photographs of this tree?

A. No, sir, I didn't take any photographs. [195]

Q. Did anybody else with you?

A. Well, Mr. Stafford and Mr. Anderson maybe did.

Q. Did they take any photographs of this tree?

A. I don't think so.

Q. From your memory, what is your basis for your statement that this was a grafted tree?

A. Well, I saw, my eyes, that was graft, was not a sport, you know, cut off the tree and put the scion up there, that's not a natural sport or mutation.

Q. You say you saw it was a graft. What made you conclude it was a graft and not a mutation?

A. Well, I conclude, you know, mutation and graft is entirely different. This is a cut out of a limb and they put two or three scions, that is the way they grow the scions in growing the fruit.

Q. How does that differ from a mutation of a sport?

A. Well, of course, a mutation, you know, they grow naturally. I am not technical, you know. That part Mr. Anderson knows more than I, but what I saw, you know, mutations they come from where the limb, you know, the—I don't know what you call, the blade, you know, they grow natural, the sport or mutation, then they produce the fruit from this. But this is cut, cut it out and put the scion and that scion grow and use it in the crop.

(Testimony of Hyeng (Harry) S. Kim.)

Q. Is that your only basis that this was a [196] graft?

A. Sure. You can see the graft, you know, how it budding.

Q. Do you know who did any budding or grafting on this tree?

A. I don't know. I think Mr. Hunter——
Mr. Shepard: Wait a minute now.

The Court: He doesn't know who did it. Did I understand you to say that you saw the place where it had been grafted?

The Witness: Yes, sir; I saw the—when I went down there, you know, it was grafted tree, is not the natural or sport or mutation.

The Court: But in a grafted tree you can see where it has been grafted and cut and another slip, or whatever they call it, put in and tied up and allowed to grow.

The Witness: Yes, sir.

The Court: You saw that on that tree?

The Witness: Yes, sir.

The Court: Did you call it to Mr. Hagler's attention?

The Witness: No, sir, I didn't see Mr. Hagler that day.

The Court: Oh, you didn't see Mr. Hagler?

The Witness: No, sir.

The Court: I see. All right.

Q. (By Mr. Griswold): Do you know what kind of a tree was supposed to be growing in that

(Testimony of Hyeng (Harry) S. Kim.)

orchard at that spot that you have described [197] as the second tree in the first row?

A. Well, I don't know at present time, you know; that time was two Sun Grand trees when I looked. Right now I don't know what they changed.

Q. Mr. Kim, didn't you sell this orchard to Mr. Hunter as a LeGrand orchard?

A. I told you we sold LeGrand variety and Red Grand.

Q. No, in this area where you observed what you claim to be a Sun Grand, didn't you sell that orchard to be true to the LeGrand nectarine?

A. That is whole field, you know; that is right. I beg your pardon.

Q. You sold as LeGrand? A. Yes, sir.

Q. What kind of root stock was on those trees that were supposed to be all LeGrand?

A. Peach root.

Q. What kind of peach root? A. Lovell.

Q. L-o-v-e-l-l? A. Yes.

The Court: Is that freestone or clingstone?

The Witness: Pardon, your Honor?

The Court: Is Lovell a freestone or clingstone?

The Witness: Freestone. [198]

The Court: All right.

Q. (By Mr. Griswold): Were the roots of these Lovell seedlings, or were they otherwise?

A. Well, we plant peaches, you know, and after germinating, you know, they spread out, you know, from the germination, you know, and we grow that. We bud them over to the LeGrand or some other

(Testimony of Hyeng (Harry) S. Kim.)

freestone, or different kind or variety, we bud them.

Q. You take a sack of peach pits of Lovells, plant them in the ground, and when they grow up you then put the LeGrand buds on those little seedlings? Is that right? A. What you mean?

Q. You plant the pits, the Lovells?

A. Yes.

Q. You plant them in the ground, and when they grow up you then take a bud——

A. Bud them over.

Q. Bud them over, yes. A. Yes, sir.

Q. Now, that had been done in this case in your sale to Mr. Hunter of LeGrand nectarines, as you have testified. Do you have any budding or grafting records of any work that you did in the orchard of Mr. Hunter after you made the sale of these LeGrand trees? [199]

A. Well, we just done our own work by all our men, but occasionally the farmers, the growers, you know, want to do that budding themselves. I think Mr. Stafford went down, we have a budding few trees, you know, but we don't keep any of those records.

Q. In other words, your answer is you have budding or grafting records on this Hunter orchard which you sold as LeGrand?

A. For the budding we don't have a record.

Q. Now, LeGrand nectarines—withdraw that question. How long after Mr. Hagler came to your office and said "I have a new variety, I want you to look at it," how long after he came to your office

(Testimony of Hyeng (Harry) S. Kim.)

and told you that did you go down to the Hunter ranch?

A. Well, I didn't put down the date on my calendar, you know, I think about the—I am not sure. It was around about some time in July, if my memory is right.

Q. Of the same year? A. Yes.

Q. So it was shortly after?

A. Yes, shortly after.

Q. Am I not correct that Mr. Hagler on that occasion told you that he was going to bud from this discovery tree and propagate asexually more of the same variety?

Q. No, I didn't hear; he didn't tell me. [200]

Q. All right. Did he tell you at any other time, at any other time, that he was going to take buds from this discovery tree and plant it on his ranch?

A. Well, he didn't tell me at the time, you know, regarding the Hunter tree. In 1956 when I went down in his orchard, you know, he budding over some varieties and I said to Mr. Hagler, "What you doing around there; you are budding my variety." Well, he says, "If your variety I will pay," that is all he say. But he never tell me about that fruit which he brought to my office, or propagating, or any grow, he never mention that.

Q. How did you happen to be down there in 1956, to Mr. Hagler's ranch?

A. Well, occasionally, you know, I go down and see him. I intended to see him at that time. He was

(Testimony of Hyeng (Harry) S. Kim.)

not there, you know, so I went in field and he was budding over there.

Q. Did you ask him what he was budding?

A. Well, I ask him, you know, but he didn't tell me then.

Q. He told you if they were yours, why, he would pay you?

A. Well, that is what he say but he never tell me what varieties of mine.

Q. Did you ask him?

A. Well, I didn't ask him exactly, but I don't know what kind of variety he is budding over there, so he says he would pay if my variety. I didn't demand any more, you know. [201]

Q. Now, from 1954 until 1956 you did nothing about his disclosures to you of his variety?

A. Yes, that's right, nineteen—first I discovered the fruit of Mr. Hagler's orchard, you know, in 1957, the Sun Grand.

Q. Then what did you do when you discovered—how did you discover that fruit you claimed to be your plant number 974?

A. Well, I feel that he might have some of our varieties and also 1954, you know, he bought some new varieties, you know, he claimed, that is the reason I went down there.

Q. In '57?

A. Yes, in 1957, and I and Mr. Anderson, Mr. Taylor, Mr. Stafford, Mr. Floyd Zeigler, Tom Butler, Tom Casabian, we go down and see that orchard.

(Testimony of Hyeng (Harry) S. Kim.)

Q. Are you familiar with the Federal State Marketing News Service?

A. Well, I didn't watch it all the time, but do you mean about marketing for the Sun Grand?

Q. Are you familiar with the State Federal News Service?

A. I am not familiar very much, marketing news. Sometimes I hear, I see the report, and sometimes I didn't see.

Q. So you didn't see the sales of Red King in the 1957 Federal State Marketing News?

A. Yes, I saw that report, you know, the Red King, it says occasionally, you know, lower prices than the Sun Grand. [202]

Q. You mean Sun Grands sold at a higher price in 1957 than the Red King?

A. Yes, sir, comparison 1957 and 1958.

Q. Do you recall the spread in the sales prices of the two designations on the Federal State Market News Service?

A. Yes.

Q. What is it? Do you remember how much difference?

A. Oh, I see some reports, you know, about 50 cents, 35, and the highest, you know, 75 cents and 25 cents.

Q. You are speaking now of the net differences between the sales of Sun Grand and the sales of Red King?

A. Red King. The few sales I see higher than Sun Grand, but not much.

(Testimony of Hyeng (Harry) S. Kim.)

Q. You are familiar with the Gold King nectarine? A. Yes, sir.

Q. Do you know who the owner of the Gold King patent is? A. I think is **Mr. Hagler**.

Q. Mr. L. A. Hagler, the defendant in this case?

A. Yes.

Q. We can all be mistaken, can't we, Mr. Kim?

The Court: Well, that is arguing with the witness.

Q. (By Mr. Griswold): Did you make the claim in the Gold King that that was also one of your patents? A. No, sir, I didn't. [203]

Mr. Griswold: No further questions.

The Court: All right. Any questions?

Mr. Shepard: We have no questions at this time.

The Court: All right. Step down. Call your next witness.

Mr. Griswold: Just one more question, your Honor.

The Court: Yes.

Q. (By Mr. Griswold): Of course, you are familiar with mutations or sports. Now, directing your attention to what you saw in 1954, we will call it the Hagler parent tree, what you observed you say was a graft. Can you tell us what height above the ground was this apparent graft you saw?

A. You mean Mr. Hunter's place?

Q. I mean Mr. Hunter's. Thank you. So we won't be confused, that will be the second tree in the——

(Testimony of Hyeng (Harry) S. Kim.)

A. Around knee high, I believe, a little better than knee high.

Q. Can you designate that in feet?

A. I don't know, maybe about three feet, over.

Q. About three feet?

A. About three feet over, I guess. Some people cut it low and some people they cut it high, and some people they cut it medium.

Q. But you observed this at about three feet?

A. Yes. [204]

Q. Describe what you saw of that tree, as far as the trunk and the number of branches, or divisions of that tree, the basic divisions, the large limbs coming up, if any?

A. Well, they not much large limbs, the size, you know, they grow and not very long. They had fruit but limbs, you know, are not so big.

Q. How big around was the trunk when you saw it?

A. You mean circumference?

A. No, the part from the ground up to the first fork, how big around was the tree?

A. Well, I don't know; I am not positively sure, you know; it is about around four or five feet, that time.

Q. I don't believe I understood your answer. How big around was the trunk?

A. Well, around trunk, you know, you mean the grafted place?

Q. At the graft or otherwise?

(Testimony of Hyeng (Harry) S. Kim.)

A. Well, it is a quite big tree, at least, you know, about four or five years old tree.

Q. You made no measurements?

A. No, sir, Mr. Griswold, I don't have any measurements.

Mr. Griswold: No further questions.

Mr. Shepard: No questions.

The Court: Step down. I think we will take a short recess for the afternoon, then we will not interrupt the next witness. [205]

(A short recess was taken.)

The Court: All right, call your next witness.

Mr. Griswold: Mr. Hagler.

Mr. Houk: Mr. Hagler, will you take the stand, please?

LYLE ADRIAN HAGLER

the defendant, called in his own behalf, having been previously duly sworn, was examined and testified as follows:

Direct Examination

By Mr. Houk:

Q. Mr. Hagler, you have already stated your name and your address. What is your general business, Mr. Hagler? A. Rancher.

Q. And approximately how many acres of fruit do you have, fruit trees?

A. Oh, about 600 acres.

Q. And you also have other farming operations?

A. Yes, sir.

(Testimony of Lyle Adrian Hagler.)

Q. And what are they?

A. I have got dairy, and cotton, beef cattle.

Q. Pardon me? A. Beef cattle business.

Q. And how many acres of cattle land do you have? A. You mean rented or owned?

Q. Both. A. Oh, about 4,000 acres. [206]

Q. And how long have you been in this type of business, generally speaking? Have you been farming all your life? A. Yes, sir.

Q. And how long have you lived in this particular location, or approximate location?

A. 43 years in the present house I am living in.

Q. And approximately how long have you been in the fruit growing of trees and fruit crops, particularly nectarines?

A. I believe around 1945 I started on the nectarines. I am not right sure, '44 or '5.

Q. Now, you have heard the discussion here in court with reference to the Hunter place. Is the Hunter ranch or property near your ranch?

A. Yes, it is just across the road, and a little north.

Q. In the past few years have you had any arrangement with Mr. Hunter about taking care of his fruit?

A. Only in the picking and packing.

Q. And during the year 1954 was that the agreement? A. Yes, sir.

Q. And did you pick and pack his fruit at that time? A. Yes, sir; I did.

Q. And during that particular year did you dis-

(Testimony of Lyle Adrian Hagler.)

cover any fruit other than the regular fruit that ordinarily came off his ranch?

A. Yes, sir, they brought in, and on the load which [207] came in from the orchard, and I went out there and looked to see where it came from and discovered this tree that had the red fruit on it.

Q. And was the fruit the same as the other fruit that was taken off the ranch?

A. No, it was highly colored and quite a bit different.

Q. And then what did you do with this fruit in particular? Did you take any of it anywhere?

A. Well, I took it up to the office packing house and called Mr. Deredian's attention to it, and he looked at it and said——

Mr. Shepard: Just a moment.

The Court: You can't testify what he told you.

Q. (By Mr. Houk): Just testify to what you did, Mr. Hagler.

A. I took some to the office.

Q. Did you take any of the fruit to see Mr. Kim?

A. Yes, I believe the next day.

Q. And will you tell when you arrived there, did you see Mr. Kim?

A. Yes; he was in his office.

Q. Was there anybody else present besides you and Mr. Kim?

A. No, not in his office; there was someone across the hall in another office.

(Testimony of Lyle Adrian Hagler.)

Q. Would you repeat the conversation you had with Mr. [208] Kim at that time?

A. Well, I had, I don't know, two or three of this variety of nectarines, and I laid them down on his desk and told him it looked like I had a new nectarine. Mr. Kim says, "It looks like my Red Grand." I said, "I bought some Red Grand trees from you last year, and I had the understanding they were clingstone," and he said, no, they were not. Then he thought a little while, and he said they were, and I says "These are freestone, then they can't be Red Grand." Mr. Kim says, "Well, I got some in my cooler in the room and we will look at those," and we went in and he had three or four kinds, three at least. I don't think he had Red Grand, but he had what he called Sun Grand and two or three other varieties, I don't remember what, and we laid these nectarines kind of down on the table and they were a lot larger than any that Mr. Kim had, and a little different color, and he didn't say a thing for a little while, then he says, "I don't know what those are, but they are one of mine." That's all he said at that time.

Q. What did you say to him you were going to do?

A. I told him I had a block of cling peaches that were about two years old, they were all mixed with several varieties, I found out, and I was going to dormant bud about ten acres, all I could of what buds I could get off of this tree. And I don't

(Testimony of Lyle Adrian Hagler.)

remember what Mr. Kim said, I [209] don't think he said anything at the time about it.

Q. Was anything said about him being paid for this, if it was any of his type of fruit?

A. I told him at the time if it proved out to be his fruit I would pay him for it.

Q. Now, this particular tree that this fruit come off of, would you briefly describe it, as to how old it was, and how high?

A. Well, it was about ten or twelve foot high, they were picking through the orchard with 12-foot ladders, and it was just as high as any of the other trees in the orchard.

Q. Did you check the particular limb the fruit come off of, to form an opinion in your own mind as to what you thought was the cause of this fruit growing this way?

A. Well, it looked like it was always there; it didn't look like it was any graft. It looked like a sport, came up close to the ground, maybe eight or nine inches from the ground, before it branched off from the other side of the tree.

Q. At this time, Mr. Hagler, I show you U. S. Patent, plant patent 1718, and ask you to look at this. You recognize that as a patent to you?

A. Yes, I do.

Q. Is that the patent that you applied for on this [210] particular fruit?

A. Yes, that is the one.

Mr. Houk: If the Court please, at this time we would like to introduce this into evidence. We have

(Testimony of Lyle Adrian Hagler.)

the original patent, and we also have a certified copy from the Patent Office.

The Court: We will take the certified copy.

Mr. Shepard: Your Honor please——

The Court: Yes.

Mr. Shepard: ——for the record we will make an objection to the admission of this document on the grounds of lack of notice, and lack of pleading by the defendant of this patent as a defense, particularly on Section 282 of 35 U. S. Code, and on other case grounds.

The Court: The objection will be overruled. The Court feels that while the requirement of notice is not met there has been no showing of harm, the defendants have been informed orally about the patent, and the section gives the Court power to allow patents which are relied upon to be offered even though the written notice has not been given. Furthermore, I think regardless of the patent itself, the fact that the fruit grown is the result of a polinization by the defendant is a defense which is open under the pleading, just as if it were a mechanical device the defendant would have a right to show that the device he [211] uses is entirely different from the device, even though he does not attack the patent. That was done in one of the cases to which I referred yesterday.

Objection overruled. All right. It may be received.

The Clerk: Defendant's Exhibit A.

(Testimony of Lyle Adrian Hagler.)

(The patent referred to was marked as Defendant's Exhibit A, and was received in evidence.)

Q. (By Mr. Houk): Mr. Hagler, referring to these particular trees that you have on your own place, which fruit has come off of, and which is referred to as Red King trees, which would be under this patent 1718, have those buds all come off of this sport on this original tree?

A. Yes, sir; all that block, yes, sir.

Q. Have you ever planted or budded or grafted any Sun Grand on your property?

A. No, sir.

Mr. Shepard: Well——

Q. (By Mr. Houk): Mr. Hagler, this particular tree we have in question, now, you have seen this tree at various times this last fall and summer?

A. Yes, sir, I have.

Q. And at the present time, or recently, in looking over this tree, was any change made on the base of the tree or [212] limb, as far as you know?

A. There was a little change about May some time, I believe it was; there was a limb growing out from the trunk about a foot from the ground, and it disappeared. I don't know where it went to.

Q. Did it have fruit on it?

A. It had one nectarine.

Q. And had that been cut off?

A. Yes, sir; it had been removed.

Q. Did you have it cut off?

(Testimony of Lyle Adrian Hagler.)

A. No, I didn't; no one seemed to know where it went.

Mr. Houk: If the Court please, I would like to ask the witness a question for just a minute, before I try to make this introduction in evidence, to see if he is qualified to testify.

The Court: Yes. Go ahead.

(Conference between counsel and the witness.)

Mr. Houk: That is all the questions we have at this time.

The Court: Cross-examine. Since you made the discovery, in '54 did you say it was?

The Witness: Yes, your Honor, '54.

The Court: How many trees have you budded?

The Witness: Oh, I budded 968 off of this tree, then in '57 I budded about eight acres more. [213]

The Court: How many trees to the acre?

The Witness: There is 90 trees to the acre, a little over 1,700 trees all told.

The Court: Of this variety?

The Witness: Yes, sir. I didn't follow up in '54, I let it go a couple of years to see what I had, then I went ahead.

The Court: What do you call it? What is the name of it?

The Witness: Red King.

The Court: Red King. All right.

(Testimony of Lyle Adrian Hagler.)

Cross-Examination

By Mr. Shepard:

Q. For the record, Mr. Hagler, do you have the exact number of these Red King trees on your ranch?

A. Well, I stated in my deposition, at that time I went and counted them, but I haven't since and I have kind of forgotten exactly at this time.

The Court: Well, if you have his deposition maybe he will confirm what he said in his deposition.

Mr. Shepard: That is correct, your Honor.

Q. In your deposition you mentioned 968 trees—counsel, I picked that up on several pages——

A. Yes.

Mr. Shepard: ——on page 23.

The Court: What base did you use? [214]

Mr. Shepard: Four pages—pardon me, your Honor. Page 14, counsel. There were 968 older trees.

A. Yes.

Mr. Shepard: You verify, so he knows I am talking about line 10.

The Court: Well, you can figure; he said 90 trees to the acre, was it?

The Witness: Ninety.

The Court: And what was it, 80 acres?

The Witness: No; it was 10 acres, I believe.

The Court: Oh, ten acres.

The Witness: The first, a little over ten acres of the first lot I put in, the first year, in '54.

(Testimony of Lyle Adrian Hagler.)

Q. (By Mr. Shepard): Well, can I go through your deposition, Mr. Hagler, I think you counted them right before then, and you can verify it?

A. Go right ahead, as far as I am concerned.

Q. You mention 968 of the older trees, that was the first block? A. That is right.

Q. That was at line 10, and then there was an additional row of younger trees right adjacent to the first block about five rows?

A. Yes. [215]

Q. And you have mentioned—counsel, page 8, lines 11, 12 and 13—220, 44 long and 5 wide, we multiplied there? A. That is right.

Q. Then in the plot immediately behind your farm house, right at the back side of the ranch next to the eucalyptus trees, there is also a young group, and I think you counted those at 660 trees; page 12, line 8, at another place—

The Court: What is the total?

Mr. Shepard: I don't know if it appears any place.

Q. —you mentioned a plot, page 8, line 16, of 28 by 24, as being 672.

A. That probably was the same plot we were just talking about.

Q. As the 660? A. Yes, sir.

Q. Well, it is one of those two figures, 660 or 672?

A. That is right. They might vary a little. You know, there were a few trees in each block that weren't true.

(Testimony of Lyle Adrian Hagler.)

The Court: How much does that give us, if we add them? Call it 672. 1860?

The Witness: 1860. I didn't figure it exact.

The Court: 968 old trees, is that it?

The Witness: That is right.

The Court: That gives 1860 trees. [216]

Q. (By Mr. Shepard): Now, then, the tree which your counsel described as the parent tree on the Hunter ranch, you first observed that tree in 1954? A. Yes, sir; that is correct.

Q. And what did you observe of that tree when you went out there to the orchard?

A. Well, I got a ladder and got up and looked at the fruit. Most of the fruit was pretty well up in the tree, toward the top, and I noticed it was different fruit than any of the other in the orchard, different than any I had ever seen, red and large.

Q. Was there any other fruit on the tree there?

A. There was some other fruit on the other side of the tree, another limb of LeGrands on the same tree.

Q. As a matter of fact, the whole orchard was supposed to be LeGrand, and you were harvesting LeGrands at that time? A. That is correct.

Q. And it came to your attention that some strange fruit came off of what should have been a LeGrand tree? A. Yes, sir.

Q. Now, would you describe that fruit, as you recall, how it differed from the LeGrand fruit, in general?

A. Well, it was entirely different color, it was

(Testimony of Lyle Adrian Hagler.)

a deeper red color, most of it. Of course, this fruit at [217] that time—it was the end of the season and it was all colored because it was about two weeks later than that variety should have been picked for market, and practically all the fruit on the tree was a deep red color. It was round, and I broke some open and found out it was freestone, real free; red around the pit, and—you just asked for the fruit, not the tree?

Q. Yes; the fruit. Go ahead.

A. That is about all I could say. It was new to me.

Q. At that particular time, whatever day that was in July, did you observe any difference in the flesh, between the LeGrand and this new fruit that you claimed?

A. Well, it was pretty ripe.

The Court: Pretty what?

The Witness: Pretty ripe, and it was late in the season for that particular kind, I guess; it had kind of lost its flavor. It had been irrigated along with the LeGrands and that is the reason. It was still firm, though.

Q. (By Mr. Shepard): Did I hear you mention awhile ago that it was probably two weeks beyond its picking time?

A. Perhaps it was, because I don't believe I picked fruit in Mr. Hunter's orchard until about the 26th of July.

Q. Now, were there any other noticeable—with-

(Testimony of Lyle Adrian Hagler.)

draw that. Would you describe the limbs of the tree and the leaves, to [218] the extent you observed them, of the whole tree?

A. Well, that particular side of the tree, the limb there seemed to be a very vigorous growing tree. It was large with real large leaves. I am not a plant expert. I just looked at it and seen it was different, even the bark looked a little bit different, a little grayer, and more vigorous growing than the LeGrand alongside of it.

Q. Now, what about the leaves? Did you notice the leaves on the tree at that time, or did you go back later and notice them?

A. No, I never. I just looked; they looked like they were larger leaves, that is all I knew about them.

Q. Would you distinguish between the surface skin of those two fruits, that is as to smoothness, between the LeGrand and this new fruit you call Red King?

A. Well, I think they were about the same, except maybe this was a little more glossy, like it was polished or waxy looking.

Q. You might say a little smoother?

A. Well, I would say a little smoother.

Q. And the color you have already said, I think, was probably redder than the LeGrand?

A. Oh, yes, real red.

Q. All right. And the flavor, did you try out the flavor? [219]

A. Yes; the flavor of those weren't as good,

(Testimony of Lyle Adrian Hagler.)

didn't taste very good. We figured it was on account of being irrigated with the LeGrand, kind of knocked the sugar out of it. It had plenty of juice, and they weren't mealy, they were firm.

Q. Have you since formed an opinion as to whether or not there is a difference in flavor between the normal Red King you grow now and that LeGrand?

A. You mean difference between that and LeGrand?

Q. Yes. A. You mean the flavor?

Q. Yes, sir.

A. I don't know, I like this a little better, I think; it seems to be a little sweeter.

Q. Would you say the Red King is a little more tart?

A. Well, it might be a little.

Q. How about the size of the Red King, as compared to the LeGrand, that is the average size?

A. Oh, it kind of varies. We have had some awful large Red Kings, and I believe it is just a little smaller on the average size than the LeGrand.

Q. Yes. Now, then, did you notice any other limb, leaves or fruit on that tree different than the Sun Grand or—strike that—different from the Red King, as you now call them, and the [220] LeGrand?

A. No; there wasn't any more fruit on it.

Q. Well, did you notice any limbs that were different?

A. Well, there was another limb on it that didn't have any fruit at the time. I suppose it was peach,

(Testimony of Lyle Adrian Hagler.)

but I wouldn't be sure. It must have been an early variety as the fruit was gone.

Q. In your best opinion there was another limb which was a peach limb?

A. Well, I imagine it was.

Q. Now, you took two or three of this fruit, as you say, to Mr. Harry Kim in Reedley?

A. Yes; Mr. Kim, the gentleman right down there.

Q. And you told him they were from the Hunter ranch?

A. Yes, sir; I did.

Q. Did Mr. Hunter later bring to your attention a letter of warning from Mr. Kim, that they claimed there was a Sun Grand on Mr. Hunter's ranch, or Sun Grand tree?

A. No; I don't believe he did. He told me that he got a letter from Kim, ordering him to dig up a tree or two that he had there.

Q. That was the same year, wasn't it?

A. Yes, sir.

Q. All right. Did you observe any Sun Grand fruits before 1957?

A. No; I don't believe I did. I believe it was '57; [221] possibly in '56, I went out to Mr. Escaradian's orchard and looked at his. He said he had a block of ten acres of true Sun Grand. They weren't quite ready to pick; when I was picking mine, but I never went back. He had just a few, but they were a different shape and a little lighter color, and a little smaller than my particular kind.

(Testimony of Lyle Adrian Hagler.)

and I didn't go back later because I got too busy with my own fruit.

Q. That was in the summer of 1956?

A. I am not certain, '57 or '6, I am not sure; I believe it was '57.

Q. Now, you shipped some of the fruit from this original block of what you call Red King, as you stated earlier you shipped a few of those fruit in 1956?

A. Yes; a few.

Q. And what name or label did you ship them under?

A. I am not certain. I was away most of the time, and people in the packing house was picking them about the same time that some of the other varieties were picked. There was just a few, running a field crew and there wasn't enough to fill up a belt and they run with other fruit, but I believe they labeled most of them Red Grand; I am not sure.

Q. Red Grand?

A. I am not sure, but I think Red Grand.

Q. You had Red Grand on your place? [222]

A. Yes, sir.

Q. Do you have any records of how many of those, what we will call Red Kings, you harvested in 1956?

A. I think I stated in my deposition around 360, but since then I have kind of checked up, and it seems like it might have been a little less, maybe 260, something.

Q. 260 what?

A. Or 160.

(Testimony of Lyle Adrian Hagler.)

Q. Field boxes?

A. No; packed out boxes.

The Court: What is it, 260 what?

The Witness: 260 pack outs. I haven't got the exact figure, because they are mixed up. I know part of them were this particular Red King.

Q. (By Mr. Shepard): Now, this '56 would have been the first year then that you commercially harvested any amount off those Red Kings?

A. Well, the first year that they could have bore any was 1956.

Q. All right. Now, when you budded these trees in 1954, you budded the original block of 968 trees at the first budding opportunity after you had discovered it? A. Yes, sir.

Q. I suppose that would have been in the [223] winter?

The Court: What did you bud them to?

The Witness: I budded them to the Red King; and put on my cling peaches, two-year-old trees, cut them, just put them in the limbs, the buds.

The Court: I see.

Q. (By Mr. Shepard): What time of the year was that?

A. I believe it was August, August or September. It was getting late August or first part of September, somewhere in there.

Q. And all of those buds came from one branch?

A. Yes, sir, on this one tree. Of course, this branch came up and forked and on each branch, it covered almost half of the tree.

(Testimony of Lyle Adrian Hagler.)

Q. And the buds, I suppose you budded, put three or four buds to each one of these cling trees?

A. Some of them three and four, one bud in each limb.

Q. So that you would have got approximately a minimum of possibly 3,000 buds off of this one branch?

A. Probably, I don't know just how many.

Q. And had you taken any full box samples of the Red King from this one tree before you started your budding? Had you taken such samples of a box, or several boxes, to a packer or anybody else, to display?

A. No, sir; I didn't. [224]

Q. And the fruit from the so-called parent tree, you say probably was not as good flavor as they later developed into?

A. Well, at the time—now, since they go to sap earlier we know, when they are first full of sap they are very good flavor.

Q. And so at the time you budded the ten acres or 968 trees, could we say that was more or less an experiment on your part?

A. Yes; I think it was. I thought I would try them out.

Q. And were you following those ten acres with some interest as they developed?

A. Yes; I watched them.

Q. But the first year they bore fruit and were harvested, in 1956, you didn't keep any segregation

(Testimony of Lyle Adrian Hagler.)

of them so you can tell us now how many boxes exactly?

A. Well, I believe it was on my records there somewhere. I brought in those other records, you have them.

Q. You shipped them under some other name than Red King?

A. Well, they didn't know what they were at the packing house at the time, and a part of them went, I am not sure.

Q. Mr. Hagler, in your opinion in 1954, at least after you showed the fruit to Mr. Kim, you felt this was a new [225] variety, did you?

A. I certainly did. After I had taken them to Mr. Kim and he couldn't identify it, he didn't know what they were, he said he had Sun Grand there in his cooler, and they certainly didn't look like what he had.

Q. Now, the Red Grand is considerably different than the so-called Red King, isn't it?

A. Yes; it is a little different.

Q. Different, yellower color?

A. A little yellower, not quite as red.

Q. It is a clingstone, isn't it?

A. Yes; it is cling.

Q. Then when you shipped these in 1956, you were convinced they were a new variety?

A. That's right. I made up my mind thoroughly. I have been told by different people that seen them that they were different, and I hired a man that really should know and he found a big difference.

(Testimony of Lyle Adrian Hagler.)

Q. When was that? A. '56.

Q. What was that man's name?

A. Mr. Braun.

Q. Mr. Braun here in court, from the State College here? A. Yes, sir.

Q. And did he advise you in 1956 that they were a new [226] and distinct variety?

A. Yes; he said they were different, after he looked them over thoroughly and examined them.

Q. All right. Now, in 1956, did you feel by that time, having seen the parent tree and watched the ten-acre plot grow for two years that this new variety was a pretty good thing?

A. It looked like it might be, because they were new and seemed like they would bear pretty well, so I went ahead with them. I put in a few more, but I haven't since because I know a little more.

Q. Now, you first applied for your patent, at least formally applied——

The Court: '57.

Q. (By Mr. Shepard): ——October 28, 1957?

A. Well, I believe, I don't remember the date. I worked on it through all the summer the year before.

Q. Pardon me?

A. We worked on it all summer the year before, all of '56 preparing.

Q. Now, did you sign the patent application?

A. Yes, sir.

Q. And did that patent application describe this Red King, as you saw it? [227]

(Testimony of Lyle Adrian Hagler.)

A. Yes; I believe it did.

Q. Have you read the plant patent 1718?

A. Yes; I have read it.

Q. Now, you have also discussed the matter, I suppose, with Mr. Braun and other people, discussed your fruit with them, as interested parties?

A. Yes.

Q. In what manner, Mr. Hagler, do you feel that your Red King differs from the Sun Grand?

A. Well, I think it's—well, I haven't followed it right close all summer, but it is a little different shape, for one thing.

Q. A little what?

A. Little different shape, is longer and has more of an apex, and I think from what I have observed Sun Grand is a little lighter color, it isn't quite as dark, and also the Red King is a little lighter fruit than the Sun Grand.

Q. Any other significant differences?

A. Well, there is a little difference in the blossoms that—in the leaves.

Q. What differences are there in the blossoms that you recall?

A. Well, I will have to have Mr. Braun answer that, because I am not right familiar with the blossoms. I had him analyze those [228] thoroughly.

Q. Do you notice anything different as to the ripening date?

A. Well, the last three years has been very—a

(Testimony of Lyle Adrian Hagler.)

lot of difference. In '56 what we got was from the 7th to—one picking on the 7th and the last on the 16th, but this last year it was the first of July, everything was early a couple of weeks, ten days early.

Q. Now, when you say ten days early——

A. They came right in with early LeGrands this year, and usually they are about five or six days later.

Q. When you use the word “usually,” Mr. Hagler, how many years background do you have to form an opinion as to what the usual ripening date of the Red King is?

A. Well, just three years.

Q. '56, '57 and '58? A. Yes, sir.

Q. When did they ripen in '56?

A. That is what I say. I picked the first picking the 7th of July, and one more picking was on the 16th.

Q. Was that in '56? A. Yes, sir.

Q. In '57, last summer?

The Court: Summer before last?

Q. (By Mr. Shepard): That is right, summer before last. [229]

A. Summer before. Well, I would have to look at my book to refresh my memory.

Q. Did you bring those records with you?

A. Yes; they are here. You have them, or they are here.

Mr. Shepard: I don't have them. May we have those?

(Testimony of Lyle Adrian Hagler.)

The Court: Well, if he has a document that will show the ripening date. Have you got that?

Mr. Shepard: I subpoenaed the records, your Honor.

Mr. Houk: I don't think the records will show ripening time, they will show when packed.

The Court: Well, they would show when he began picking, if they were ripe when picked, wouldn't they?

The Witness: They pack the same day we pick.

The Court: Well, if he says it shows, show him the book. Let him find it. He knows what he put down.

The Witness: 1957, was that the year we were looking for?

The Court: Yes.

Mr. Shepard: Well, I would like all years from your records, so there will be no mistake.

The Witness: 1958, here.

The Court: Start back to '56, what the entries show there.

Q. (By Mr. Shepard): Take your time. I know records are confusing to look at.

A. You subpoenaed the LeGrands and all, so I have got [230] the whole works here.

Q. Yes; I want to ask about LeGrands later.

A. It says here we started on the 8th of July.

The Court: We are talking about what year?

The Witness: 1957.

Q. (By Mr. Shepard): Would you read me, Mr. Hagler, in 1957 the dates, whatever those are,

(Testimony of Lyle Adrian Hagler.)

picking and the shipping dates, the amount and the day, as to the Red King? July 8th.

A. Wait a minute, I have got the wrong set of books. This is Mr. Girazian's, you supoenaed his, too, I believe.

The Court: He is interested in what your records show.

The Witness: Here is 1957. What was the question?

The Court: The first day you began picking.

Q. (By Mr. Shepard): Let's take it slowly. In 1957, did you personally have records of the picking or packing dates of your Red King nectarines?

A. Yes; I have.

Q. Ranch records, whatever it is.

A. July 8th I started, finished on the 20th.

Q. Would you give the days and the amounts? July 8th was how much?

A. July 8th we packed out 639.

Q. These would be lugs? [231]

A. Yes, sir. And the 12th we packed out 1050. 13th we packed out 486. The 16th we packed out 1100. The 17th, 280, and on the 20th, 511. That is 1957.

Q. All right. The 20th was the last day?

A. Yes, sir.

Q. Now, in 1956 you said there was a little confusion on your records, and I won't—

The Court: Well, he said he could tell 260 lugs, is that the idea?

The Witness: In nineteen—what year?

(Testimony of Lyle Adrian Hagler.)

The Court: '56, you said you mixed them up with the other.

The Witness: I think I can find them now. I had the wrong papers awhile ago. In 1958—I don't seem to have '56 here.

Mr. Shepard: All right.

The Court: All right, go to '58 now.

The Witness: '58, July 2nd. You want the number picked?

Mr. Shepard: Yes.

The Witness: 913; July 5th, 1145; July 8th, 1237; July 13th, 660; July 19th, 259; that is the total.

The Court: All right.

Mr. Shepard: That was five figures.

The Witness: Well, some of those run in together, Mr. Shepard. [232]

Mr. Shepard: Oh.

The Witness: Let's see. Maybe not on '58, but '57 do. I believe about three pickings in '57.

The Court: All right.

Q. (By Mr. Shepard): Do you know of any other Red Kings, so-called, which are planted on any other ranches in California which have yet to come into bearing?

A. Well, not—my brother, he has a few, I don't know, not very many, just started to bearing a little this year, grafted trees.

Q. Did he ship any this year?

A. Yes; he shipped a few.

The Court: Other than your brother, have you

(Testimony of Lyle Adrian Hagler.)

engaged in selling them commercially, or just use them for your own?

The Witness: No; we sell them. Mr. Girazian sells all our fruit.

The Court: I mean the trees themselves?

The Witness: Well, no; we haven't sold any trees at all; we are just using them ourselves.

Q. (By Mr. Shepard): Now, sir, do you have your records on LeGrand nectarines for those same years, '57 and '58?

A. I have them here somewhere. I am not familiar with these records, my bookkeeper keeps them. [233]

Q. I want you to take your time.

A. It is a little difficult for me to recognize them without taking a little time. I won't take any more time than I have to, because we are kind of in a hurry. Here is LeGrand in 1956. You want the Regulars or the Earlys?

Q. Well, would it be convenient to take them both at once? Let's eliminate 1956.

A. They kind of appear to be a little mixed up here.

The Court: Let's start with '57, because you say you have them segregated there.

A. '57, the Regulars started July 17th. You want each day of pick?

Q. (By Mr. Shepard): Yes.

A. July 17th, we packed out 1132; on the 18th, we packed out 2160; on the 19th, we packed out 2592; on the 20th, we packed out 3407; on the 21st,

(Testimony of Lyle Adrian Hagler.)

we packed out 2272; on the 22nd, we got, packed out 3684; 23rd, we packed out 6435; and July 25th, we packed out 5162; July 24th, we packed out 3456; July 26th, we packed out 2632; July 27th, we packed out 4232; July 28th, we packed 3759; July 29th, we packed out 5229; and July 30th, we packed out 3576; 31st, we packed out 1231; August 1st, we packed out 1115; August 3rd, we packed out 2461—we got the 3rd before the 2nd—August 2nd, we packed 1662; on the 4th, we packed out 2436; and August 5th [234] we packed out 822. That appears to be the total.

Q. All right. Now, could we have that for 1958?

A. Let's see.

Q. On your Regulars.

A. On the Regulars, 1958 season, Regular LeGrands, they were mixed up a little. My crew got them mixed them up with the Early LeGrands, kind of run them in together. June 26th——

Q. Before you begin, does that statement appear in the record, showing the mixup, or is that just your own knowledge?

A. No; my records show the mixup, and I don't know how my broker records are, because I have never seen them, but these here, they was all run in as Early LeGrands, Earlys and all, apparently.

Q. But do your records show which of these are Early and which of these are late?

A. No; it doesn't seem to, no, sir.

Q. Let me see them, if I may.

(Testimony of Lyle Adrian Hagler.)

A. They started about two weeks early on the Early, 26th we start on this, but I know we started on the Regular LeGrands along ten days earlier than usual, even on those. I don't know how I can identify the Early from the Regular.

Q. It would just be your best guess of knowing when you started your Regulars? [235]

A. Yes; it would. I imagine, you see here there is quite a little break between the 4th and 13th. I believe the 13th is when we started on the Regulars, because that is about a week, you see.

Q. Do you have the 1956 record on your Regular LeGrands that are segregated so we could get at least a couple of years?

A. I probably have.

The Court: Well, I think we have taken enough time to go into this. This is more of an accounting. I don't see what bearing it has.

Mr. Shepard: It has this bearing, your Honor, that although Mr. Hagler hasn't emphasized it, his patent claim is the Red King ripens at a different period from the Sun Grand, and it is going to be necessary to have the picking dates, which is the closest to the ripening dates, to determine that factor.

The Court: Well, he can give you that, but the number he picked is not material; he has already given the dates for the others beginning in August.

Mr. Shepard: That point is, your Honor——

The Court: Let's not argue the case. I didn't object, but I don't want to take the time unneces-

(Testimony of Lyle Adrian Hagler.)

sarily, gentlemen. He has given you the dates. Can you give us the earliest date that your record shows that you picked LeGrands in '56? [236]

The Witness: Yes, sir; I believe I can.

The Court: All right.

The Witness: July 7th—wait a minute; that was Early LeGrands. July 18th, the Regulars.

Q. (By Mr. Shepard): What is the latest date you picked, of the Regular LeGrands?

A. August 1, '56.

The Court: All right.

Q. (By Mr. Shepard): Now, just glancing at your record there, and trying to save time, would it appear that July 18th is your earliest date and August 1st your last date, and that in between somewhere would be the heaviest picking period?

A. Yes; I believe you are right. Did I give you '58?

Q. No. '58 is the one you had mixed up.

A. I believe it was the 13th, about a week earlier.

Q. When you began on your Regulars?

A. Yes, sir.

The Court: All right.

Q. (By Mr. Shepard): Now, would you tell me when the Red King, according to your observation, ripens?

A. Well, this year we picked the first picking the 2nd of July; that is a little earlier than we have ever [237] picked them before, but compared with our other fruit, the Regular and Early Le-

(Testimony of Lyle Adrian Hagler.)

Grand, I picked Early LeGrands about the 25th of June, and that is ten days early for them.

Q. Now, would you compare your Red King to the Regular LeGrand?

A. You mean in time of picking?

Q. Yes, sir.

A. I think it was about, this last year it was about ten days earlier than the Regular.

Q. Would you say it was closer to a week, or closer to two weeks earlier than the——

The Court: He said ten days.

Mr. Shepard: He said “about ten days,” your Honor.

A. The 13th and the 2nd, ten days to be exact.

Q. Those were the beginning dates?

A. Yes, sir.

Q. And the beginning dates in 1957 were from the 8th, July 8th to July 17th?

A. You are speaking of the Red Kings?

Q. I am speaking of the Red Kings, started on July 8, in 1957.

A. I believe that is correct.

Q. And the Regular LeGrands started July 17th, and that would be nine days?

A. About nine days. [238]

Q. Now, would it then be your opinion that the Red King ripens from nine to—what is that figure—nine to eleven days ahead of the LeGrands?

A. Well, I was basing my figure on the Early LeGrands, but I believe that would be right with

(Testimony of Lyle Adrian Hagler.)

the Regulars; about four or five days earlier than the Early LeGrands, that is my comparison with LeGrands. I said LeGrand, but I meant Early LeGrands.

Q. Are you talking about the patent now?

A. No; I am talking about the ripening period; that varies from year to year.

Q. You said you made a comparison with the Early LeGrands as to the Red King, as to the ripening period.

A. Well, that is what I figured, about five days difference.

Q. Does that appear in your patent, sir? Is that one of the descriptions that you have?

The Court: Yes; I saw it; he says it comes in between the two, between LeGrand and the Sun Grand.

Mr. Shepard: He is talking about the Early LeGrands, sir.

The Court: Well, he has corrected it. Was your comparison with LeGrands or Early LeGrands?

The Witness: Well, I had in mind LeGrand. I didn't—

The Court: Differentiate between the two?

The Witness: No; I did not.

The Court: Now, make a comparison between this Red [239] King and Early LeGrand, what difference is there as to ripening period?

The Witness: Well, I would say this year there was a big mixup, in this past year, your Honor.

The Court: Well, let's take '57.

(Testimony of Lyle Adrian Hagler.)

The Witness: Going back to '57.

Mr. Shepard: May I have the Red King patent exhibit? I want to refer you to the last paragraph . of—this is the wrong one. 1718.

The Court: You want Exhibit A. I am sorry, I have it. There it is, it is in the claim and also in the specifications.

Mr. Shepard: Would you read the claim there to yourself?

The Court: I think it says five or six days.

The Witness: Yes.

Q. (By Mr. Shepard): Now, what is your description, your best accurate description of the ripening date of the Red King? I refer you to the patent which says it ripens five to six days earlier than the variety LeGrand, and you have said awhile ago that it ripens nine to eleven days earlier?

A. That is what it has the last two years. In 1956 it ripened about seven days.

Q. Well, now, in 1956, you hardly had enough lugs off of the trees to even label them, did you?

A. No; we didn't have too many. [240]

Q. And your patent was not put in to the Patent Office until October 22, 1957, some two months, at least, after the ripening period?

A. Well, we had been working on it in '56, and studying it all through '56.

Q. And you have Early LeGrands on your ranch?
A. Yes; I have.

Q. You are fully aware of the difference between Early LeGrands and Regular LeGrands?

(Testimony of Lyle Adrian Hagler.)

A. Yes; they seem to be a little earlier than Regular, not very much.

Q. Well, the Early LeGrands are about three weeks earlier than the LeGrands?

A. Not down in my place.

Q. Well, do you have the starting dates on any of your Early LeGrands there?

A. Yes; I think I have. This last year, you can't tell anything about it, the fruit ripened way early.

Q. Well, let's look at the years and explain it later. 1956, '57, '58.

A. This is Regular; this is Early. 1957 we started July 3rd.

Q. July or June?

A. July. My early fruit was a little——

Q. Wait a minute, your Early LeGrands you started—30th? [241]

A. July 3rd.

Q. 3rd. Pardon me. When did you start in 1956 on your Early LeGrands?

A. I don't appear to have '56 Early. I have the Regular.

Q. You have given us that.

A. Oh, wait a minute. Yes; here it is. I started July 7th.

The Court: On the Early or the Regular?

The Witness: Early.

The Court: Early, all right. Are we in '56 now?

The Witness: Yes, sir, '56.

Q. (By Mr. Shepard): Now, '58.

(Testimony of Lyle Adrian Hagler.)

A. There was just a few the first day, first and second days. It was the 16th before I got a big picking.

Q. What is 1958, sir, on your Early LeGrands? That is the one you had mixed up.

A. That is one they put them all down, but 1958 we was way early, as I told you, the fruit was to be farmed and wasn't natural in '58.

The Court: Well, give us the date, and we will talk about it later.

The Witness: O.K. I started June 26th on the Early LeGrands.

Q. (By Mr. Shepard): Now, the point I am making by these dates, Mr. [242] Hagler, there is a definite distinction in your mind between the ripening period of the Early LeGrands and the LeGrands? A. Yes; a little.

Q. And when you used the comparison in your patent with the LeGrand, as being five to six days ahead of your Red King, and you named the LeGrand by patent number 549, there was no confusion in your mind as to whether you thought—

A. No; it was Regular LeGrand, since I have refreshed my memory and looked at these records, it was the Regular.

Q. Yes; did you, Mr. Hagler, have occasion to take any samples of your Red King this year?

A. Well, not personally. I have had Mr. Braun handle that for me. I have been kind of laid up ever since my wife passed away.

Q. I appreciate that.

(Testimony of Lyle Adrian Hagler.)

A. I have been leaving everything up to my help.

Q. I appreciate that, sir. Now, I am just asking you, for the record, you didn't get any Sun Grand samples then yourself personally?

A. No; I didn't. I didn't even take Red Kings personally, myself, but I was with Mr. Braun several times when he took them. He took them pretty often, all summer, or spring, rather.

Q. Did you go to any of the Sun Grand ranches with [243] Mr. Braun?

A. Yes; I went to one.

Q. Which ranch was that?

A. The Tagus Ranch.

Q. And did you keep the fruit, or did Mr. Braun?

A. Mr. Braun kept all of it. I believe later, when I was away from home, he left some out in my storage; I still have that. I am pretty sure I've got Sun Grand and Red King both.

Q. Now, did you draw up this patent, or did Mr. Braun draw it up and then you signed it?

A. Mr. Braun got all the data together, and Mr. Houk is the one that drawed it up for me, and we sent it in to the Patent Office.

Q. How many of the Red Kings, approximately, does your brother have? Trees?

A. Well, I think he has around 400, three or four hundred. I wouldn't be certain because I just gave him the buds to graft later.

Q. You shipped all of your Red Kings for the

(Testimony of Lyle Adrian Hagler.)

years in question, '57 and '58, through Mr. Girazian?

A. Yes, sir.

Q. At his Kingsburg Packing House?

A. That is right.

Q. You, of course, do not claim that you have any [244] permission to grow Sun Grands?

A. No; I haven't.

Q. One other question I may have overlooked: Did you notice the leaves or the glands of your Red King, and can you describe them, as to what they are?

A. No; I couldn't describe them, because I am not up on that kind of business. I just relied on Mr. Braun, he showed me one day they must run two glands to the leaf.

Q. Did he show you what kind of glands they were?

A. Yes; he said they were globular, I think.

Q. Globose? A. Globose, yes.

Q. Other than that, you didn't pay too much attention? A. No; I didn't.

Q. One other thing, Mr. Hunter is a partner of yours in the mining business?

A. That's right.

Q. And as to his fruit ranch you kind of take care of the picking and harvesting of his fruit, while he takes care of your mining interests?

A. Yes; he was gone away most of the summer up to this last year, and I see about the harvesting. They do all the rest of the work, just the harvesting and packing is all I do.

(Testimony of Lyle Adrian Hagler.)

Q. Now, you said that you started with your nectarines [245] in 1945, or thereabouts?

A. Thereabouts. I bought the first nectarines from Mr. Kim, I believe. I would have to look back at the record.

Q. I am not holding you to the particular year. You mention, though, that you did start out with Mr. Kim's nectarines, was it the LeGrand?

A. Well, the first year I got some LeGrands, and I got Quettas and John River, and from some of the LeGrand the first year I started in nectarines.

Q. And you have grown, as your records show, LeGrands pretty heavily over the years?

A. Well, I planted LeGrands for three or four years, I haven't planted any since. I have around probably 50 acres of the Regulars.

Q. Now, on two occasions in the past you have asexually reproduced additional LeGrand nectarines patented by Mr. Anderson and owned by Mr. Kim, without his consent?

Mr. Houk: Just a minute, if the Court please. We are going to object to this. We don't think it has any bearing on the case. It has to do with an entirely different fruit and different years. We have been sitting back and letting this go on at length but we don't think it is material to the question involved here and we don't think it is proper evidence in this case.

Mr. Shepard: Your Honor please, I submit it on the [246] ground——

Testimony of Lyle Adrian Hagler.)

The Court: I will allow it to go in. I don't think it amounts to much anyway; it doesn't go to wilfulness, the fact the man may have infringed another patent doesn't mean he infringes this one. However, if you want it in, put it in. You may answer.

Q. (By Mr. Shepard): Is that correct, Mr. Hagler? A. What was the question again?

The Court: Read the question, Miss Schulke.

(Question read.)

A. Well, it's kind of a mixup on that deal. When I originally bought the first nectarines from Mr. Kim, I told him I didn't know whether I would like these John River nectarines or not, and he told me that if I didn't I could bud them over the next year, as soon as I found out whether I cared for them or not, as long as I didn't bud any outside my own ranch it was all right to go ahead with it.

Q. (By Mr. Shepard): However, in 1949, you actually paid Mr. Kim, under written agreement, compromise payment for infringement on his LeGrand without a license, is that correct?

A. '49, I don't remember the date, but I paid him. The next year he forgot all about it, what he told me, and rather than to go into court I settled out of court. It didn't [247] cost me, I figured, any more, that is the reason I settled with him.

The Court: All right.

Q. (By Mr. Shepard): And again in 1952, you

(Testimony of Lyle Adrian Hagler.)

paid a substantial sum for asexually reproducing the LeGrand without a license for some 840 trees?

A. That was under the same deal, just worked over other trees I got from Mr. Kim.

Q. But these were three years apart?

A. Yes; I tried them out a little longer.

Q. Well, I mean in 1949 you made a compromise and paid him something? A. Yes.

Q. In 1952 you did the same thing?

A. Yes, sir.

Q. As to another group of trees?

A. That is right.

Mr. Shepard: That is all the questions I have. I have the agreements, if counsel want to see them.

The Court: I am not interested in the compromise agreement. Were you going to offer the agreement?

Mr. Shepard: I would like to offer them.

The Court: All right, offer them.

Mr. Shepard: This is the 1952 agreement, and I show you [248] your signature here, and ask you if you recognize your signature, and Mr. Kim's?

A. Yes; that is mine.

The Court: All right. It may be received. This is the first compromise agreement. Mark it 9.

(The agreement referred to was marked as Plaintiff's Exhibit 9, and was received in evidence.)

Mr. Shepard: This is in 1949—

The Court: Go ahead, I can listen while I—

No. 16,351

IN THE

United States Court of Appeals
For the Ninth Circuit

KIM BROS., a partnership,

Appellant,

VS.

L. A. HAGLER,

Appellee.

BRIEF FOR APPELLANT.

SAVAGE & SHEPARD,

RICHARD L. SHEPARD,

915 Helm Building, Fresno 1, California,

Attorneys for Appellant.

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No. 16,351

IN THE

**United States Court of Appeals
For the Ninth Circuit**

KIM BROS., a partnership,

Appellant,

vs.

L. A. HAGLER,

Appellee.

BRIEF FOR APPELLANT.

**BASIS OF DISTRICT AND CIRCUIT
COURT JURISDICTION.**

The original action herein is based on appellant's complaint (p. 3 Transcript), against appellee-defendant's alleged infringement of appellant's United States Plant Patent No. 974, the complaint praying for a permanent injunction and damages (see Pars. V, VI, and VII of the complaint, pp. 5, 6, 7 and 8 Transcript). The patentability of plants is authorized by 35 U.S.C. Sec. 161 (former 35 U.S.C. Sec. 31). The United States District Courts are given original jurisdiction of any civil action arising under any act of Congress relating to Patents, 28 U.S.C. Sec. 1338. Courts having jurisdiction in patent cases may grant

injunctions to protect patent rights, 35 U.S.C. Sec. 284. This Honorable Court of Appeals of the Ninth Circuit has jurisdiction of this appeal from the final decision of the District Court of the Southern District of California, by reason of 28 U.S.C. Sec. 1291; 28 U.S.C. 1294(1).

STATEMENT OF CASE.

Plaintiff's (appellant) assignor, Frederic W. Anderson, foremost fruit breeder of Nectarines in the world, patented the Sun Grand Nectarine, No. 974, and sold it to plaintiff nurseryman on a flat fee non-royalty basis. Plaintiff, Kim Bros., a partnership, have developed a large market in the San Joaquin Valley for this Sun Grand, as well as other Anderson patented Nectarines and other fruit. Plaintiff also grows and markets the Sun Grand and other Nectarines, as farmers and packers. In the last few years, Sun Grand has brought some of the highest prices on the auction markets of all varieties (see Exhibits Nos. 11, 12, 13 and 14).

Defendant, L. A. Hagler, is a large farmer who has purchased patented Nectarines from plaintiff in the past and who has also admitted unlicensed reproduction of plaintiff's patented Nectarines on two (2) occasions in the past and paid damages (Plants Exhibits 9 and 10, p. 257, Transcript). In 1957 plaintiff discovered large numbers of Nectarine trees on defendants' ranch, which they identified as Sun Grands,

their Patent No. 974. Defendant denied they were Sun Grands. Within a few days (July 23, 1957), plaintiff filed suit in this action.

Unbeknownst to plaintiff, defendant filed application for patent on the accused Nectarine (October 28, 1957), after he had filed his answer (September 4, 1957). After delays, a pre-trial order was entered March 4, 1958, listing exhibits for the trial, and providing that "either party may introduce as evidence at the time of trial exhibits other than those listed herein provided notice is given to the opposite party at least twenty (20) days prior to the time of trial and opportunity is given to inspect said exhibit or exhibits".

June 10, 1958 (trial being November 4, 1958), the U.S. Patent Office granted defendants a patent, without giving plaintiff notice of the proceedings, even though plaintiff's Patent No. 974 was referred to in defendants' patent application. The defendant's counsel casually told plaintiff's counsel about the receipt of defendant's new patent, but gave no opportunity to examine it, particulars or intimation it was to be a trial exhibit (pp. 49-50 Transcript).

The granting of defendants' Patent No. 1718 amounted to an ex parte hearing and judgment by the U.S. Patent Office on the very issues involved in a previously commenced action in the Federal District Court. The presumption of its validity struck a telling blow to plaintiff in the decision of the trial judge (Opinion, p. 25, Transcript).

One of defendant's essential claims in distinguishing his patent No. 1718 from plaintiff's No. 974, was a difference in ripening time of the fruit. It is true that a matter of a week or ten days could make a substantial practical difference in the marketing of many Nectarine varieties. This distinguishing claim was absolutely unsupported by the evidence. Other distinguishing claims were that defendants' Nectarine had a larger size and more red color. The evidence does not support these claims. There are certain characteristics in fruit, especially Nectarine classification, on which reasonable promologists cannot disagree, such as freestone or clingstone, large or small flowers, globose or reniform glands or no glands, flowers self-sterile or self-pollenizing (pp. 75-78, Transcript), whereas differences in color, size, shape of fruit or leaves, eating quality, ripening time, etc., can be debated by even experts if the differences are not substantial.

Whereas, plaintiff's patented Nectarines have been developed by long, laborious years of cross breeding, defendant bases his discovery of a new variety on a suddenly discovered sport (mutation) from one of plaintiff's patented Nectarine trees (Le Grand). The well reasoned opinion of a renowned independent authority testified such a sport was impossible (pp. 440-442, Transcript), while the defendant's expert testified without reason that such a sport was possible (p. 394, Transcript).

Evidence as to difference or substantial identity between the two Nectarines involved was sharply con-

flicting and a judgment for plaintiff could certainly have been sustained on the evidence. In view of this, the errors in admitting and “validating” defendant’s patent were prejudicial.

The essential questions involved in this appeal are:

(1) Whether defendant’s patent No. 1718 (Exhibit A), should have been admitted in view of the pre-trial order and in view of 35 U.S.C. Section 282;

(2) Whether the claims and specifications of defendants’ Patent No. 1718 covered the defendants’ accused Nectarine;

(3) Whether the defendants’ Patent No. 1718 should be entitled to a presumption of validity; and if so, whether such presumption should have any relevancy in this infringement action against the accused Nectarine;

(4) Whether defendants’ accused Nectarine is substantially different from plaintiff’s patented Nectarine, so as not to infringe thereon.

If the answer to any of these questions be “NO”, then the judgment below should be reversed or the case remanded for a new trial.

SPECIFICATION OF ERRORS.

The District Court below erred in the following particulars:

1. Admission in evidence on behalf of defendant, of defendant’s Plant Patent No. 1718, as defendant’s

Exhibit A (p. 225, Transcript). Plaintiff-appellant objected to the admission of this Exhibit on the grounds of "lack of notice and lack of pleading and Section 282 of 35 U.S.C." (p. 225, pp. 46-51, Transcript; see also p. 425, Transcript).

2. Rejection by Court of plaintiff's counsel cross-examining defendant's chief expert witness Martin Braun on his knowledge of claims in defendant's patent No. 1718, defendant's Exhibit A (p. 381, Transcript).

3. Finding of Fact No. 3, to-wit: "The United States Patent Office will allow a patent for a deviant plant where it is shown to have a few characteristics which distinguish it from other plants." There is no evidence in the record of what the U.S. Patent Office did in granting the defendant's patent No. 1718, Exhibit A; no evidence of what this office does in general. The attempt by the defendant to introduce a manual of procedure of the Patent Office was rejected by the Court on objection of plaintiff (pp. 425-426, Transcript). The statement in the Court's memorandum opinion to the effect of this finding (p. 21, Transcript) was based on an inference that because plaintiff's assignor had been granted several Nectarine patents, it followed that there must be small differences between these patented Nectarines. It follows just as well that there are substantial differences in these other varieties patented.

4. Finding of Fact No. 4, to-wit: "Plaintiff's patented variety known as 'Sun Grand', U.S. Plant

Patent No. 974, for Nectarine trees issued on August 22, 1950, to Frederick W. Anderson, has the following characteristics:

- (a) An early ripening period, with respect to other commercial varieties;
- (b) A larger size than the same;
- (c) Superior shipping and eating qualities."

This finding is incomplete because this Patent No. 974 has other claims of importance, among which is the claim that it ripens "approximately three weeks earlier than the yellow fleshed Le Grand variety" (Plaintiff's Exhibit No. 1).

5. Finding of Fact No. 9, to-wit: "The trees of defendants were the result of a sport or deviant".

There is no believable evidence that this could be possible where the uncontradicted evidence was that the "trees of defendants" (their alleged Red King variety No. 1718), were developed from one or two trees which were originally Le Grand trees (p. 230, Transcript). Although defendants' chief expert testified that such a sport was possible, he gave no reasons for such an opinion (p. 394, Transcript); other experts testified with good reason that such sport was impossible because of the great number of changes in characteristics between the alleged parent (Le Grand) and the supposed offspring sport (Red King). Dr. Harold P. Olmo, geneticist, University of California, at Davis (pp. 440-442). Frederick Anderson (pp. 497-499).

6. Finding of Fact No. 10, to-wit: "The trees of defendants are of an independent variety, named 'Red King'." The defendants based the independence of the variety on the allegation that it was a sport of the Le Grand (see Defendants' Exhibit A, Patent No. 1718, line 30, Column 1, line 58, Column 1, line 6, Column 2, and in the claim column 4). The believable evidence showed this to be a practical impossibility because of transmission of such divergent characteristics between supposed parent and sport.

7. Finding of Fact No. 11, to-wit: "The trees of defendants were developed by defendants and covered by U.S. Plant Patent No. 1718, filed October 28, 1957, and issued on June 10, 1958." In addition to the misrepresentation in the patent of denoting the defendants' "Red King" to be a sport, he claimed a "novelty by its habit of ripening about five or six days earlier than the fruit of its parent variety 'Le Grand'" (see claim of Patent No. 1718), and particularly that "the ripening period of the new sport, falls almost midway between that of Sun Grand and Le Grand . . ." (lines 53-60, Column 1 of Patent 1718). The evidence demonstrated there was no difference in the ripening period of Sun Grand and "new sport" (Red King), (p. 387, Transcript), and in fact, were the same (pp. 499-500, Transcript, Plaintiff's Exhibits 22 and 23). Likewise, defendants' evidence demonstrated the "Red King" ripened 14 to 21 days ahead of the Le Grand (Defendants' witness Braun, p. 383, Transcript).

8. Finding of Fact No. 12, to-wit: "The Nectarines grown by defendants under U.S. Plant Patent No. 1718 differ from those of plaintiff grown under U.S. Plant Patent No. 974 in the following respects and particulars:

- (a) Coloration of fruit,
- (b) Coloration of cavity,
- (c) Size and shape of fruit,
- (d) Size and shape of pits,
- (e) Difference in leaves as to shape, color and glands."

The defendant's Nectarines could not be grown under Plant Patent No. 1718 because this patent does not describe defendants' Nectarines, as pointed out in Specification of Errors, Paragraphs 6 and 7 above. Furthermore, the evidence does not support any substantial difference in the particulars listed in this finding.

9. Finding of Fact No. 13, to-wit: "The Nectarines grown by defendants under U.S. Plant Patent No. 1718 ripen five to six days earlier than the fruit of its parent variety, 'Le Grand' ". The defendants' own evidence supported only the conclusion that defendants' Nectarines ripened at least 9 days (Hagler, pp. 241-253, especially 249, Transcript), and more probably 14-21 (Braun, p. 383, Transcript).

10. Conclusion of Law No. 1, to-wit: "There has been no infringement of plaintiff's U.S. Plant Patent

No. 974, issued on August 22, 1950, to Frederick W. Anderson.” The evidence demonstrated that defendants’ Nectarines were substantially the same if not identical with the plaintiff’s patent No. 974, Sun Grand Nectarine, and were not a distinct and new variety of plant.

11. Conclusion of Law No. 2, to-wit: “Plaintiff has suffered no damages in this action.” If there has been infringement this conclusion is obviously erroneous, defendants having grown large numbers of the accused trees.

ARGUMENT WITH POINTS AND AUTHORITIES.

The United States plant patent laws originated on May 23, 1930 (*Townsend-Purnell Plant Patent Act*, Ch. 312, 46 Stat. 376, now 35 U.S.C. Secs. 161-164), but the recorded cases of Courts dealing with plant patents can be counted on the fingers of one hand, in contrast to the thousands of cases on patents generally. The plant patent Act was enacted primarily for an incentive to the professional plant breeder according to the Congressional Committee reports:

“Purposes of Bill

The purpose of the bill is to afford agriculture, so far as practicable, the same opportunity to participate in the benefits of the patent system as has been given industry, and thus assist in placing agriculture on a basis of economic equality with industry. The bill will remove the existing discrimination between plant developers and industrial developers . . .”

“Stimulation of Plant Breeding

Today the plant breeder has no adequate financial incentive to enter upon his work. . . .It is hoped that the bill will afford a sound basis for investing capital in plant breeding and consequently stimulate plant development through private funds” (*Senate Report*, 71st Congress, 2nd Sess., Calendar No. 307, Report No. 315, Plant Patents).

The House Report of the same Congress is to the same effect. It is to be noted that plaintiff’s patentee, Frederic Anderson, is practically a modern Burbank in the Nectarine field (pp. 53-57, Transcript). He has patented 31 varieties among a total of possibly 41 patented Nectarines (p. 57, Transcript), and all by laborious plant cross-breeding process. The defendant is a farmer (not plant breeder), who allegedly stumbled on a bud sport in an orchard quite by accident (see Exhibit A, first and second paragraphs of Patent 1718).

It is important to realize the difference between hybrids (cross-breeding) bud sports, and seedling mutants. The Senate report (*supra*) drew these distinctions in Par. III thereof, Explanation of Provisions of Bill, Classes of New Varieties. The distinctions are also put out in the brochure of U.S. Department of Commerce, Patent Office, “General Information Concerning Plant Patents”, 1958, U.S. Comm. D.C.-37607. Plaintiff’s assignor, Anderson, developed his hybrid Sun Grand by cross-breeding—intermixing pollen, planting seeds, selection of seedlings, asexual repro-

duction (pp. 64-66, Transcript). This is the method which produced the new Sugar hybrids described in *Bourne v. Jones*, 114 Fed. Supp. 413, 416, a case which had nothing to do with sports or mutants. The difference between sports and mutants as used in the statute (35 U.S.C. 161), was pointed out by Mr. Anderson (p. 133, Transcript). Mutants refers to mutations coming from volunteer seedlings by self-pollenization of the species, and changes of character, although generally regressive, are more possible. Whereas, a sport is a bud mutation where a bud on a growing tree suddenly develops new characteristics.

No one denies that bud sports do occur, but such occurrences almost always result in poorer characteristics (pp. 458-459, p. 497, Transcript). The claim of the defendants' patent alleged a bud sport of this "Red King" from the Le Grand. This meant a change of characteristics thusly:

<u>Characteristics</u>	<u>Le Grand</u>	<u>Red King</u>
leaf glands	reniform	globose
stone	clingstone	freestone
ripening	July 26th (approx.)	July 5 (approx.)
surface of fruit	less smooth	smoother
color of fruit	yellow—less red	more reddish
russeting	more russeting	less russeting
flavor	less tart	more tart
size	larger	smaller
vigor of tree	less vigorous	more vigorous

See Plaintiff's Exhibit 16. Dr. Harold Olmo, University of California geneticist, explained that it would be an "extremely remote possibility, so remote that one could consider it practically impossible" (p. 446,

Transcript). He explained that the chances of a bud sporting from clingstone to freestone and reniform to globose glands would be 1 in a million (p. 441, Transcript), and the additional differences would put the chances in "astronomical proportions". The witness Anderson gave similar testimony with similar reasons as to the doubtful possibility of transmitting wide differences in sports (pp. 497-499). The defendants' expert, Braun, gave no reason for giving an opinion such a sport was possible (p. 394, Transcript).

"The trier of facts under proper circumstances may reject expert testimony and reach a conclusion based upon its own knowledge, experience and judgment. However, it must fairly appear from the record that the fact finder had knowledge and experience relative to the subject matter. The expert opinion cannot be arbitrarily disregarded" *Cullers v. Commissioner*, 237 F.2d 611, p. 617 (1956).

Furthermore, in order for opinions of experts to have "much weight, they must be accompanied by statements of good reasons on which they are based", 3 *Walker on Patents*, Deller's Edition, sec. 707, Expert Evidence, p. 2018. Both the witnesses Anderson and Olmo have had wide experience in the field of plant genetics and the development of new varieties, Anderson particularly with Nectarines, while the witness, Braun, has never developed a worthwhile variety (p. 350, Transcript). The value of expert testimony generally depends on the facts stated as the reason for their opinion. *Stentor Elec. Mfg. Co. v. Klaxon Co.*,

30 F. Supp. 425, affirmed 115 Fed. 2d 286, reversed on other grounds, 313 U.S. 487.

In addition to the claim of defendant Hagler's Patent No. 1718 that the Le Grand was a parent of the sport Red King, the defendant declared in his claim that his Red King ripened "5 to 6 days earlier than the fruit of its parent variety, Le Grand" (Exhibit A, col. 4, line 13), and in his specification, (Exhibit A, col. 1, line 59) alleged his Red King ripened "midway" between plaintiff's Sun Grand and Le Grand, which latter two were said to ripen two weeks apart. The evidence is absolutely contradictory to these claims, and the Court admitted as much in its opinion, (p. 26, Transcript). Even though the defendants' expert made a chart of ripening periods between the Sun Grand and Red King, he could find no significant difference (p. 387, Transcript). Furthermore, he was of the opinion the Red King ripened 14 to 21 days ahead of the Le Grand (p. 383, Transcript), not 5 or 6 days, as claimed in the patent. This divergence meant the Red King ripened at the same period as the Sun Grand. The Court in its opinion, erroneously indicated only 2 harvest periods had passed for the Red King and therefore, ripening periods could not be accurately determined (p. 26, Transcript). The defendant gave the ripening dates for his Red King for 3 years: 1956-July 7th (p. 241, Transcript), 1957-July 8th (p. 243, Transcript), and 1958-July 2 (p. 244, Transcript). If the ripening date differences claimed by Hagler are not yet determinable (as the Court infers), the patent is invalid for lack of inven-

tion, because the claim would "be predicated on mere speculation or conjecture, . . ." whereas, "it must be based on something ascertained, something definite and certain", (*Bourne v. Jones*, 114 Fed. Supp. 413, p. 418, citing *Westinghouse Electric & Mfg. Co. v. Saranac Lake Electric Light Co.*, CCNY 108 F. 221, affirmed 2 Cir., 113 Fed. 884). If the ripening periods demonstrated by the evidence are to be used, which seems more reasonable, then the Court should construe the defendant Hagler's Patent No. 1718 not to cover his trees and fruit. "To construe letters patent is to determine precisely what inventions they cover and secure. Nothing described in the letters patent is secured thereby unless it is covered by a claim." *Walker on Patents*, Vol. 2, p. 1204; *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, p. 510. Furthermore, the construction of a patent is a matter of law, not of fact, *Coupe v. Royer*, 155 U.S. 565, 574-575, and therefore, the construction of the trial Court should be reviewable by the Appeals Court. To the layman, the discrepancy of a week or two in ripening period claimed in the patent and the actual fruit might seem a small error. However, nobody points out the importance of this in the closely competitive field of marketing fresh fruit better than the defendant himself in his own patent (Exhibit A, col. 1, lines 62-64).

The other points of the defendants' Patent claim (Exhibit A, Col. 4, lines 8-14), to-wit: yellow flesh, freestone, higher red coloring of skin as compared to Le Grand,—these claims show no novelty whatsoever.

The Le Grand, Sun Grand and Red King are all yellow fleshed (see pp. 80-81, Transcript, and Exhibits E-28-29-30). To say a Nectarine is yellow fleshed is simply to distinguish it from white-fleshed, such as the old Quetta Nectarine (p. 64, Transcript). Of course, no one disputed the fact the Sun Grand and Red King were both freestones, and both redder-skinned than the predominantly yellow-skinned Le Grand.

It seems plain from this review of the evidence that the claims of the defendants' Patent No. 1718, (Exhibit A), simply do not cover his accused fruit, and therefore, it was error for the trial Court to so find, invoking the presumption of validity and thereby covering the accused fruit with a protective veil of legality.

The preceding decision of the invalidity or erroneous claims of the defendants' Patent No. 1718, as applied to the accused fruit, is further highlighted by the irregular manner in which this Patent (Exhibit A) was introduced in evidence. The pre-trial order, entered March 3, 1958, (pp. 12-16, Transcript), purported to list in Paragraph V, "The exhibits to be offered at the trial, insofar as are now known, consist of the following:" While the plaintiffs, of course, listed their Patent No. 974, the defendant made no mention of his Patent application pending since at least October 28, 1957. The pre-trial order further recited in said Paragraph V:

"The parties have stipulated that either party may introduce as evidence at the time of trial exhibits other than those listed herein provided notice is given to the opposite party at least 20

days prior to the time of trial and *opportunity is given to inspect said exhibit or exhibits*” (italics ours).

While it is true defendants’ counsel casually mentioned on the phone to plaintiff’s counsel, in June, 1958, that defendant had been granted a patent, he did not advise plaintiffs the nature or number of such patent, nor that the same was to be used as an Exhibit at the trial, nor offer to give plaintiffs the “opportunity to inspect” the same, (pp. 49-50, Transcript). The trial Court has the right to relieve counsel of pre-trial stipulations to prevent manifest injustice, but it must impose suitable protective terms or conditions to prevent substantial harm to the opposing party. A court may err in relieving a party of a stipulation as to a crucial fact without imposing appropriate conditions to protect the opposing party. “The responsibility was on the Court. In the nature of things the Court, and the Court alone, could fashion those measures which would make the result fair”. *Laird v. Air Carrier Engine Service, Inc.*, C.C.S. 1959, 1 F.R. Serv. 2d, 16.32, p. 267; 263 Fed. 2d 948, p. 953; see also *Burton v. Weyerhaeuser Timber Co.*, D.C. Ore., 1941, 1 F.R.D. 571, (where a new trial was granted for failure to conform the evidence to the pre-trial order). It is true the Court below suggested it would protect plaintiffs from surprise (p. 50, Transcript), after plaintiffs had objected to the admission of the Exhibit A, as in variance with the pre-trial order, but the Court never did. Defendants were on notice of plaintiff’s Patent from the time suit was filed (defendant per-

sonally knew of the Sun Grand Patent, as far back as 1954), and had every opportunity to use discovery and subpoena procedures with the patent office or plaintiff, to attack its validity or manner of issue. Plaintiffs had no such opportunity to investigate the background of defendants' patent, which turned out to be his most important defense. Although the Patent Office has power to require specimens of the plant in quantity and can refer plant patents to experts in the Department of Agriculture, we should not indulge in the presumption that they have done so. Although it is not a matter of evidence, the plaintiffs have learned since the trial, that the Department of Agriculture never inspected the "Red King" Nectarine, let alone verified in any manner, the alleged variance in ripening date between the Red King, Sun Grand and the Le Grand, as set forth in the claims and specifications of the defendants' Red King Patent. A reading of the record demonstrates the honorable trial judge was not of the temperament to indulge continuances (p. 428, p. 49, p. 117, p. 435, Transcript), and furthermore, unduly limited plaintiff in cross-examination of defendants' witnesses concerning Patent No. 1718 (p. 381, Transcript). The Court admits the file of the Patent Office might be admissible in evidence (p. 426, Transcript).

In addition to the pre-trial order, Section 28 of 35 U.S.C. requires patents to be pleaded or noticed in writing:

"In actions involving the validity or infringement of a patent the party asserting invalidity or non-infringement shall give notice in the plead-

ings or otherwise in writing to the adverse party at least thirty days before trial, of the country, number, date, and name of the patentee of any patent. . . .” 35 U.S.C. 282.

The section then goes on to give the Court power to admit such evidence, even though the section has been violated, on such terms as the Court makes. But the Court below, in effect, simply set aside the requirements of this section and the pre-trial order without making any terms. The appellants submit that this was an abuse of judicial discretion. See *Electric Storage Battery Co. v. Shimadzi*, 307 U.S. 1, p. 16, 59 S. Ct. 675, p. 682, 1939, (before amendment of 35 U.S.C. 282 in 1952). *C. S. Johnson Co. v. Stromberg*, 9 C.C.A., 1957, 242 F. 793, pp. 797-798, affirms that exception in the last sentence of 35 U.S.C. 282, gives the trial judge discretion in these matters; however, on the facts of this case, we think the decision of the trial judge here was not a reasonable exercise of discretion.

The presumption of validity of defendants' Patent No. 1718 invoked by the trial Court would seem to be in error in view of the misrepresentation in the patent application concerning the difference in ripening periods between the Red King and Sun Grand, and the Le Grand. *Floridan Co. v. Attapulgis Clay Co.*, 35 F. Supp. 810, pp. 813-814, aff'd. 125 F. 2d 669. Furthermore, if plaintiff had been given timely written notice and opportunity to examine defendants' patent, the Patent Office file wrapper would have afforded further information as to just what references and consideration were made by the Patent Office as to

plaintiff's Patent No. 974. This might well have further weakened or destroyed the presumption of validity. *Delco Chemicals, Inc. v. Cal-Bee Chemical Co.*, D.C. Cal. 1957, 157 F. Supp. 583; *Niash Refining Co. v. Azor, Inc.*, D.C. R.I. 1957, 159 F. Supp. 505; *Beauchamp v. Schireson*, D.C. Cal. 1937, 18 F. Supp. 367. Although there may be a presumption of validity attached to a patent regularly issued, nevertheless structures embodying the inventions of a prior patent will be enjoined "whether or not the Patent Office has given the shield of a patent". *Starlack Mfg. Co. v. Kublanow*, 3 C.C.A. 1939, 106 F.2d 495, p. 501.

It is to be pointed out that although a grant of a subsequent patent (defendants' Patent No. 1718) raises a legal presumption of a patentable difference from an earlier patented invention (plaintiff's Patent No. 974); there is no presumption that the subsequently granted patent does not infringe the earlier patented invention. 3 *Walker on Patents*, Deller's Edition (1937), p. 1758, Sec. 506, and cases there cited. The Court below applied a similar rule as to no presumption of infringement by defendant by reason of the presumption of validity of plaintiff's patent (p. 20, Transcript); but seems to presume a lack of infringement by reason of defendants' grant of patent (pp. 24-25, Transcript).

Appeals are usually difficult to prosecute successfully on the basis of insufficiency of evidence because of the great authority in the trial judge to resolve conflicts in evidence, and the rule that an Appellate Court will not upset a judgment if there is any evi-

dence to support it. However, the additional discussion of evidence to follow is made to serve two purposes (1) to attempt to demonstrate that the appellee's best evidence does not prove lack of infringement, and (2) even if it does, that the evidence was so sharply conflicting that other errors by the Court described heretofore are therefore prejudicial.

We have discussed above the differences alleged by defendant in the claims of his patent. In addition, the Court found a difference in color (redder), a larger size, a difference in the pits of the fruit, the color of the pit cavity, and in the shape, color and glands on the leaves (p. 26, Transcript). The great bulk of defendants' evidence in this regard were 35 mm. color slides projected on the screen in the courtroom. Without being personal, it seems fair to note that the trial judge was extremely near-sighted (p. 346, Transcript). Over 69 slides were projected by defendants' expert, Braun (Exhibits E 1-69). These were Kodachrome color slides, and while color photography is not positively true to actual color, the comparison of alleged differences in color should be apparent if the same film was used to photograph different fruits under the same exposure, light, distance, etc. Yet these slides do not demonstrate any substantial difference in color of plaintiff's Sun Grand (taken from 3 ranches, Hiroaka, Kozuki and Tagus), and the Hagler Red King (see Exhibits E-22 and E-23, E-16 and E-17). (p. 366, Transcript). The expert attempted to evade the sameness of color (red) in these pictures by explaining they were not taken to show color. Yet

he admitted they were random samples. The explanation is unbelievable. One is faced with the inescapable conclusion that he picked some "random" samples to demonstrate one character and other samples to show another. A glance at printed color photographs Exhibits 5, 6, 7 and 8, even though plaintiff's exhibits, will at once demonstrate the striking identity between the Red King and the Sun Grand fruits.

The Court found the Red Kings were of larger size fruit, than the Sun Grands, presumably from testimony by defense witnesses, and yet the statistics, produced by the defense expert Braun, (J-1, J-2, J-3 and 15) and the defendant's own records through his witness, Vaughn Girazian (pp. 461-463, Transcript) leave such defense statements of size unbelievable. In the fruit business size is most commonly measured by pack-out sizes: how many Nectarines will fit in a standard size shipping lug. Thus, Nectarines, which pack out 96 to the box are called 96's being much smaller than the same variety which packs out 60 to the box, called 60's, the 60's being much larger (p. 342, Transcript). Although Mr. Braun's entire analysis of comparative characteristics in his 69 slides had been with Red King fruit grown on the defendant, Lyle A. Hagler's ranch; when he obtained pack-out records, he chose to ignore pack-out records of Lyle Hagler and instead, chose those of defendant's brother, Clinton Hagler, who only has a limited number of Red King trees (1029 boxes—p. 405, as against 4094 boxes for Lyle Hagler). The results of the defendant, Lyle Hagler's pack-out sizes when added to the data

given by Exhibits J-1, J-2 and J-3, give the following range of sizes:

	Red Kings		Sun Grand	
	Lyle Hagler	Clinton Hagler	Tagus	Kozuki
60's and larger	02%	19%	5%	16%
70's and larger	30%	77%	57%	53%
80's and larger	76%	96%	94.1%	79%
90's and smaller	04.7%	nil	5%	nil

(Note: Above percentages are figured from a compilation of evidence shown at Table 1, Appendix herein.)

These statistics demonstrate that there is no difference in the range of sizes. If Lyle Hagler Red Kings sizes had been left out, as Braun did, the Clinton Hagler Red Kings *would* show a range of sizes appreciably larger than Sun Grands. But this presentation was neither fair nor believable in the light of other evidence from the same side.

It seems appropriate to point out at this point, something that should appear obvious: trees, flowers, leaves and fruit of the same variety differ (within a range) as to color, size, and number, ripening dates, from locality to locality, from tree to tree in the same orchard and even within the same tree. These differences are just natural, and also effected by soil, climate, thinning, method of cultivation, etc., (pp. 308, 292, 315, 146-148, Transcript). Comparing patented plants is hardly like comparing patented inanimate objects. Therefore, it seems apparent the only just comparison is by averages or ranges. We did use the first ripening dates—previously in this brief, because such dates are given in the two contesting patents and because this is the simplest aspect. However, the range

of ripening dates and quantities, particularly, the mid range, or period of heaviest ripening would seem a better comparison. For this reason, statistics taken from the California Tree Fruit Agreement (Exhibit 21), a governing body receiving daily reports of packing quantities, and private statistics were summarized by Frederic Anderson (Exhibits 22, 23), showing the heaviest harvest for Sun Grand to be July 5 to 10th, in 1958, and Red King to be July 5 to 9, 1958, and the Le Grand to be July 21 to 31, 1958 (p. 500, Transcript, Exhibits 22, 23).

Although the Court found a difference in coloration of pit cavity (p. 34, Transcript), the defense expert, Braun, said he could find no substantial difference (p. 311, Transcript).

The Court also found a difference in the size and shape of pits (p. 34, Transcript), and differences in the leaves as to shape, color and glands (p. 34, Transcript). Admittedly the defense expert Braun did find such differences. However, statistics and bags of pits introduced by plaintiff expert, Taylor (Exhibits 19, 17 and 18), of 50 of each variety in contrast to 10 of each taken by Braun (p. 338, Transcript), showed no differences as to pits. The same may be said of leaves.

Whatever differences in the *number* of glands, different shade of green on leaves, the slight variation in the shape of leaves or fruit, are differences on which reasonable men can vary in opinion. They are hardly sufficient for such improvement on the Sun Grand trees to leave the Red King free from the charge of

infringement. The Plant Patent law requires a "distinct and new variety" (35 U.S.C. 161). "On the other hand, in order for the new variety to be distinct it must have characteristics clearly distinguishable from those of existing varieties . . ." *House Report No. 1129*, 71st Congress Second session, April 10, 1930; paragraph labeled "Distinct Varieties"; *Senate Report*, supra, "Distinct Varieties." Even though it may be assumed from bare opinions of the defense witnesses, that the accused plant was an honest sport, it does not reasonably follow that, ipso facto, it is a new and distinct variety or specie. Congress could not have been authorizing plant patents for every new subspecies by technical botanical observation, because all patents must have utility, for in the Constitutional provision for the patent laws, the object is declared to be to promote the progress of science and "the useful arts" (U.S. Const. Art. I, Sec. 8). The conditions of patent-ability are set forth in Sections 101, 102 and 103 of 35 U.S.C., and include the requirement of usefulness, or "new and useful improvement" (Sec. 101) and

"its differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole, would have been *obvious* at the time the invention was made to a person having ordinary skill in the art to which the subject matter pertains". (Sec. 103) (*Italics ours*).

"The provisions of this title (35 U.S.C.) relating to patents for inventions shall apply to patents for plants except as otherwise provided." (Sec. 161).

While it is difficult to apply patent cases on machines, compounds, processes and designs to plant patents, nevertheless all patents arise from the same constitutional authority, and by statute plant patents are only differentiated from other patents in a few respects (the description need not be as complete, etc.), so that some light may be shed on the interpretation of plant patent infringements by other cases. It is said that minor differences found between patented and infringing structures were not sufficient to avoid infringement, for a close copy which uses the substances of an invention and performs the same offices with no change in principle, constitutes infringement, although some change of form and position was shown. *Oles v. Baltimore*, 89 F2d 279, CCA 4 (1937); *Laclede v. Camp*, 121 F2d 449, CCA 8 (1941); *Merco Nordstrom v. Acker Corp., Inc.*, 131 F2d 277, CCA 6 (1942). It is true that the Sun Grand is probably only an improvement of prior Nectarines, but it had the distinct advantage of being freestone and red color as contrasted to the Le Grand, of good size, and ripening substantially earlier than the Le Grand, Kim & Bim varieties, as well as being firm-fleshed and good eating. All of these factors are substantially identical in the Red King. Anderson had patented the Le Grand (No. 549), the Kim (No. 173) and the Bim (No. 573), as well as many later varieties. The Red King and Sun Grand are both fairly large size, although not as large as Le Grand. The Red King and Sun Grand both hit the Eastern auction markets at the same time and brought substantially the same prices (although a natural vari-

ation due to new versus old trade names, supply and demand of the market on particular day, etc. (p. 401, Transcript, Exhibit 11). Actually the Sun Grand had the higher average price. The fruit both have an attractive red color and good eye appeal. The defendants suggested no differences or improvements of the Red King over the Sun Grand by way of more vigorous tree, more cold, heat or disease resistance, or any other utilitarian or economic characteristics. In the words of the plaintiff's Sun Grand Patent No. 974 claim, the Red King is "yellow-fleshed freestone fruit characterized by a ripening period between the white-fleshed John Rivers and Grower varieties; approximately two weeks earlier than the yellow-fleshed Kim or Bim varieties; and approximately three weeks earlier than the yellow-fleshed Le Grand variety; its firm flesh; its relatively large size, and its superior shipping and eating qualities". It is no defense that an infringing device is an improvement, if the exclusive features found in the patent have been adopted. *Chesapeake & O. Ry. Co. v. Kaltenback*, 95 F. 2d 801, C.C.A. 4 (1938). A patent may be infringed where the essential or substantial features of the patented invention are taken or appropriated, or the device, machine, or other subject matter alleged to infringe is substantially identical with the patented invention. 69 *Corpus Juris Secundum*, Patents, Sec. 290, p. 851.

The lower Court apparently based its decision in large part on the fact plaintiff had no direct evidence of illegitimate grafting or budding by the defendant or third persons, that the defense witness denied such

and claimed the new accused fruit grew from a sport limb which developed accidentally from their tree, and that the plaintiff could not prove to the contrary by direct evidence (pp. 22, 23, Transcript.) If this sort of premise is followed, plant patent rights will be almost impossible of enforcement. Rarely would the patentee catch the innocent or deliberate infringer red-handed in the act of asexual reproduction (grafting, budding). Furthermore, identification of fruit trees must of necessity await the passing of at least two or three years before the fruit appears in any quantity on the new tree and before the patentee can have the matter brought to his attention, however diligent. The accused has merely to then assert that this is the result of a sport, and if in truth it was the result of grafting or budding, the scars on the tree have probably disappeared beyond positive discernment (p. 485, Transcript). Perhaps such lack of eye witnesses should make a difference on the charge of treble damages, but it certainly should not be a bar to proof of ordinary infringement. Evidence of substantial identity between the patented fruit and the accused fruit should be enough.

In summary, the defendant's own evidence does not prove a substantial difference of his accused fruit, nor does he prove a distinct new variety. His own evidence characterizes his accused tree as falling directly within the claims of plaintiff's Patent, and within all the specifications in any material or utilitarian aspect. Therefore, the judgment should be reversed and remanded with directions for an interlocutory decree of

infringement and injunction and further proceedings on damages. If not remanded for an interlocutory decree in favor of plaintiff, the cause should be remanded for new trial in view of the prejudicial errors of the lower Court and the insufficiency of the evidence to sustain the findings, all as set forth in the Specification of Errors.

Dated, Fresno, California,
August 14, 1959.

Respectfully submitted,
SAVAGE & SHEPARD,
By RICHARD L. SHEPARD,
Attorneys for Appellant.

(Appendix Follows.)



Appendix.

Appendix

TABLE I—PACK OUT SIZES

(Summary of evidence from Exhibits Nos. J-1, J-2, J-3, 15, and testimony of Vaughn Girazian, Tr. pp. 461-463.)

Lyle A. Hagler ranch Red King nectarines Pack outsizes and quantities (boxes) Year 1958										
48's	56's	60's	64's	70's	80's	84's	88's	90's	96's	
		46	45	423	360		37		2	
		9	7	271	561	36	148		13	
				249	555	57				
					268	21	127		69	
		8	2	159						
	1	10	3	73	85	8				
		6	5							
						54			25	
							284	86		
.....										
totals 1958	1	79	62	1156	1829	176	596	86	109	(4094)

Clinton L. Hagler Red Kings 1958

11	57	127	188	415	196	16	13		6 (1029)
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Tagus Ranch Sun Grands (note 15 75's) 1958

12	101	194	965	790	27		104		(2208)
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Kozuki Ranch Sun Grands 1958

1	1	314	1	750	516(410).....	(1993)
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Percentages

	Red Kings		Sun Grand	
	L.A.H.	C.L.H.	Tagus	Kozuki
60's and larger	02%	19%	05%	16%
70's and larger	30%	77%	57%	53%
80's and larger	76%	96%	94.1%	79%
90's and smaller	04.7%	nil	05%	nil

TABLE OF EXHIBITS
with page numbers wherein exhibit admitted

PLAINTIFF'S EXHIBITS

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13 (14)	Market Report, No. 53	404
14	Market Report, No. 53	404
15	Pack out Records	408
16	Chart of characteristics of Red King and Le Grand Nectarines	439, 467
17	Bag of Nectarine pits from Anderson orchard	471
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DEFENDANTS' EXHIBITS

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No. 16,351

IN THE

United States Court of Appeals
For the Ninth Circuit

KIM BROS., a partnership,

Appellant,

vs.

L. A. HAGLER,

Appellee.

BRIEF FOR APPELLEE.

WALCH & GRISWOLD,

P. O. Box 474,

Hanford, California,

GARETH W. HOUK,

120 West Willow Street,

Visalia, California,

Attorneys for Appellee.

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PAUL P. O'BRIEN, CLERK



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No. 16,351

IN THE

**United States Court of Appeals
For the Ninth Circuit**

KIM BROS., a partnership,

Appellant,

vs.

L. A. HAGLER,

Appellee.

BRIEF FOR APPELLEE.

**JURISDICTION OF DISTRICT COURT
AND COURT OF APPEALS.**

Appellee concedes that the United States District Court had original jurisdiction of this action and that this Honorable Court has jurisdiction of this appeal.

STATEMENT OF CASE.

Appellee has no quarrel with appellant's statement of the case except in the following respects: (1) Appellee did not admit unlicensed reproduction of plaintiff's patented nectarines on any occasion. (PP. 256-258 Transcript). (2) While appellee's counsel did not exhibit to appellant's counsel prior to trial appellee's Patent No. 1718 (Red King), appellant's counsel had

knowledge of the existence of the patent at least four months prior to the time and appellant's counsel obtained copies of appellee's patent two months before the trial date. (PP. 49, 134, Transcript). (3) Appellant states that there is no evidence to support appellee's claim that his nectarine ripens at a different time than appellant's fruit. To the contrary, appellee testified that his Red King ripened in 1956 about seven days earlier than the variety Le Grand, and in 1957 and 1958 nine to eleven days earlier, whereas by appellant's own evidence the Sun Grand ripens approximately three weeks earlier than the Le Grand. (P. 251, Transcript; Plaintiff's Exhibit No. 1). (4) Appellant would urge that there is no evidence to support appellee's claims that his patented fruit is larger and of a more reddish color than the Sun Grand. Professor Oscar Martin Braun testified on the basis of his exhaustive and minute study of the two nectarines that there was a difference both in size and in color as contended by Mr. Hagler. (PP. 301, 308, 313-314, 323, 344-345, Transcript; Defendant's Exhibits J-1, 2 and 3). (5) Appellant avers that his expert, Dr. Olmo, testified that a mutation of the kind herein involved was impossible and that appellee's expert, Professor Braun, testified that such a mutation was possible but gave no reasons for such a belief. Appellant's expert testified that it was *nearly* impossible for such changes to take place. (P. 440, Transcript). It is undenied that mutations do occur in nature (PP. 133, 449, Transcript), and the Plant Patent Act itself presupposes the possibility of muta-

tion. (35 U.S.C.A. 163). Professor Braun declared that it was not known simply to science why mutations happen. (P. 394, Transcript).

ARGUMENT WITH POINTS AND AUTHORITIES.

It is elementary that an appellate court should not substitute its judgment on disputed issues of fact for that of the trial court where there is substantial credible evidence to support the findings. (*Vidales v. Brownell*, 217 F. 2d 135; *Sheperd v. Mahannah*, 220 F. 2d 737). In considering the question whether challenged fact findings are sustained by substantial evidence, the court must view the evidence in the light most favorable to the party prevailing in the trial court. (*Judd v. Wasil*, 211 F. 2d 826).

The patentee who charges infringement is entitled to the presumption of validity. However, from such presumption no inference of infringement arises. On the contrary, he who charges infringement has the burden of proving it. (*Macite Corp. v. Davison*, 211 F. 2d 650; 69 C.J.S., Patents, Sec. 325).

Professor Oscar Martin Braun of the Fresno State College faculty testified at great length, illustrating his testimony by slides, respecting the comparative differences between the Sun Grand and appellee's accused nectarine. (PP. 276-421, Transcript). These differences noted as the result of an extensive and scholarly study conducted by Professor Braun over many months are summarized immediately below:

Differences Between Red King and Sun Grand Nectarines as Testified to by Professor Braun.

- | | |
|--------------------|---|
| 1. Calyx cup | Difference in size and width.
(PP. 294-296, Transcript) |
| 2. Calyx lobes | Difference in length.
(P. 295, Transcript) |
| 3. Antlers | Difference in coloration.
(P. 296, Transcript) |
| 4. Filaments | Difference in the manner in which they grow out from the edge of the calyx cup.
(P. 296, Transcript) |
| 5. Petals | Sun Grand petals more elongated than Red King. Red King petals are more rounded than Sun Grand.
(P. 297, Transcript) |
| 6. Size of fruit | Red King larger than Sun Grand.
(PP. 301, 323, 344, 345, Transcript; Defendant's Exhibits J-1, 2, 3) |
| 7. Apex tip | Sun Grand has more of an apex tip than Red King. Apex tip of Red King inclines more to one side of the center axis than Sun Grand.
(PP. 302, 311, Transcript) |
| 8. Apex | Sun Grand has a more truncated apex than Red King. Red King is more rounded at the apex.
(PP. 302, 313, Transcript) |
| 9. Base end | Sun Grand has a more truncated base end than the Red King. Red King is wider at the base.
(PP. 302, 313, 322, Transcript) |
| 10. Shape of fruit | (a) Sun Grand is more compressed on the sides. Red King is more symmetrical in appearance.
(PP. 303-304, 312, Transcript)
(b) Shoulders of Sun Grand are high. Red King shoulders are more rounded.
(P. 312, Transcript) |
| 11. Color of fruit | Red King is more reddish in color than Sun Grand.
(PP. 313-314, Transcript) |

12. Leaves
 - (a) Apex angle of the leaves of the Sun Grand is broader.
(P. 308, Transcript)
 - (b) Leaves of the two varieties differ in color.
(P. 308, Transcript)
 - (c) Sun Grand averages four (4) glands per leaf. Red King averages 2.25 glands.
(P. 317, Transcript)
 - (d) Most of Sun Grand glands appear on leaf blade whereas Red King glands are positioned equally on petiole and on leaf blade.
(P. 317, Transcript)
13. Development of fruit

More irregular and uneven in Sun Grand.
(PP. 303, 304, 309, 313, Transcript)
14. Pit
 - (a) Pit of Red King shorter.
(PP. 310, 311, Transcript)
 - (b) Red King pit has a wider diameter than Sun Grand. Also it is thicker and rounder.
(PP. 318, 322, 324, 340, 341, Transcript)
15. Seeds
 - (a) Red King seeds are not so elongated, are stubbier, shorter and have more width at the stem end of the pit than Sun Grand.
(PP. 313, 325, Transcript)
 - (b) Red King seeds are heavier than Sun Grand.
(PP. 323, 338, Transcript)
 - (c) Red King seed is more bitter than Sun Grand.
(P. 333, Transcript)
16. Suture Line

Not as prominent in Red King as in Sun Grand.
(PP. 315, 316, Transcript)
17. Cavity

Sun Grand cavity is deeper than Red King.
(P. 322, Transcript)
18. Falling of fruit

Sun Grand drops more readily near end of season than Red King.
(P. 326, Transcript)

Moreover, Professor Braun brought into court for the trial judge's perusal representative samples of Red King and Sun Grand fruit; whereas plaintiff did not produce any specimens of the accused nectarine or of his variety. (PP. 328, 331, 332, Transcript; Defendant's Exhibits F, G, H). Photographs of these representative specimens of Sun Grand and Red King are in evidence. (Defendant's Exhibits F1, F2, G1, H1, PP. 432-433, Transcript). In the words of plaintiff's own witness, Frederic W. Anderson, observation of the fruit itself is the decisive criterion in identifying varieties. (P. 120, Transcript).

It is undisputed that mutations of the type here claimed are possible. (P. 133, Transcript). Mr. Anderson averred that it was "extremely remote" that if a nectarine was a mutation that it would be the same as plaintiff's patent 974. (P. 133, Transcript).

Professor Braun testified that he could see no evidence that the parent tree was anything other than a mutation. (PP. 390-391, Transcript). Every one of the persons who could have grafted the parent tree or budded it with the plaintiff's variety, Hunter, Mr. Hagler, their employees, and the Riesners denied such act under oath. (PP. 226, 506, 507, 510, 513-514, Transcript). It is significant that appellant has not questioned the sufficiency of the evidence in support of Findings of Fact Nos. 5, 6, 7, and 8. These findings are as follows:

"5. There was no grafting or budding of a branch or bud from plaintiff's patented tree to any other tree by the defendants, their agents, servants or employees.

6. The nectarine trees grown by the defendants were not the result of appropriation by defendants, their agents, servants, or employees, of plaintiff's Sun Grand patent.

7. During the year 1955, defendants, their agents, servants or employees, did not graft Sun Grand Nectarine Scions on other fruit trees.

8. In 1956, defendants, their agents, servants, or employees, did not bud trees of the same variety as covered by plaintiff's patent."

Rule 52 of the Federal Rules of Civil Procedure provides in material part: "(a) . . . Findings of fact shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge of the credibility of the witnesses." (28 U.S.C.A., Page 13). It has been held that this proviso is particularly applicable to a patent infringement action in which the evidence is largely the testimony of expert witnesses. (*Graver Tank & Mfg. Co. v. Linde Air Products Co.*, 69 S. Ct. 535, 336 U.S. 271; *Hazeltine Research v. Admiral Corp.*, 183 F. 2d 953).

Within the application of the aforementioned principles of law it would seem clear that the trial judge had a right to believe the testimony of Professor Braun with respect to his comparative study of the nectarines herein involved as summarized in the table above and the testimony offered on behalf of the defendant and that said evidence is substantial and credible and supports the court's finding of fact No. 10 that the trees of the defendant are of an independent variety named Red King. Furthermore, as pointed out

before, Professor Braun illustrated his comparative study by slides projected in the court room, together with specimens of the Sun Grand and the accused fruit, and the trial judge was at liberty to exercise his own powers of observation with regard to the differences between these nectarines. In contrast to the careful and detailed study made by Professor Braun, Dr. Olmo, plaintiff's expert, admittedly made only a superficial examination. Dr. Olmo testified on cross-examination that he had looked at probably six to eight specimens of the accused fruit and that a sampling of this size was too small to make a determination of variety. (P. 443, Transcript). In fact, Dr. Olmo declared, to quote the record: "I certainly didn't mean to indicate that I considered the two fruit specimens the same from the samples I had." (i.e. the Sun Grand and Red King specimens) (P. 445, Transcript).

The trial court must draw its own conclusions as respects the weight of testimony of expert witnesses where there is an expert for each party. (*F. E. Myers & Brothers Co. v. Gould Pumps*, 91 F. Supp. 475, (a patent case); *Koshland & Estate v. Commissioner of Internal Revenue*, 177 F. 2d 851).

Appellant has directed much of his argument to the issue of ripening dates. A few preliminary remarks in this connection may be helpful. Witnesses for both parties were in agreement that ripening time is a very variable element. Mr. Anderson, patentee of Patent No. 974, now owned by Appellant testified that ripening time varies greatly from season to season and that it was necessary to use the qualifying word "approximate"

mately" in describing ripening date because of the difficulty in determining just exactly when any fruit is ripe. (PP. 80-81, Transcript). Mr. Taylor, a co-worker with Mr. Anderson, observed that position on the tree and other factors cause differences in ripening of fruit on the same tree. (P. 144, Transcript). If ripening time is fixed with reference to picking dates, as appears to be the case (P. 384, Transcript), the correct determination is further clouded by the custom of picking Red King fruit for the Eastern market green. (PP. 384, 463-464, Transcript). There is, in fact, adequate support in the record for the trial court's finding that the Red King ripens five to six days earlier than the Le Grand. (Finding of Fact No. 13). Mr. Hagler testified that in 1957 he began picking his Red King on July 8th and his regular Le Grand on July 17th. (PP. 243, 245, Transcript). Since, as mentioned above, the Red Kings were picked green for Eastern markets the court was justified in concluding that Mr. Hagler's patented fruit ripened approximately five to six days earlier than the Le Grand and in accord with the patent claim.

Appellant challenges the trial court's finding of fact that "The United States Patent Office will allow a patent for a deviant plant where it is shown to have a few characteristics which distinguish it from other plants". (Finding of Fact No. 3). In response to the attack on the findings, appellee would invite the reviewing court's attention to the testimony of Mr. Anderson that about forty-one (41) nectarine patents have been issued in the United States and Dr. Olmo's

remark that experts had trouble making a distinction between the various varieties. (PP. 57, 449, 458, Transcript). It would seem clear from this resume that the court below was entitled to draw the inference that a plant patent will be issued where there are only a few distinguishing characteristics.

Appellant has claimed as error the admission at the trial below of appellee's patent No. 1718 on the Red King variety. Appellant's objection to the introduction into evidence of the patent is grounded upon Section 282, 35 U.S.C.A. and the pre-trial order which recited a stipulation between the parties that exhibits other than those listed in the pre-trial order could be introduced provided notice was given of the same at least 20 days prior to the time of trial and opportunity given to inspect such exhibits. It is appellee's interpretation of Section 282 that it does not require notice to be given to appellant under the circumstances of this case. Under this section notice is required only when a patent is to be used to attack the validity of the patent owned by the party claiming infringement. In the instant case appellee has not attacked the validity of appellant's patent and to the contrary stands on his Patent No. 1718 as giving him exclusive rights to a separate and distinct variety.

Notice was actually given to appellant's counsel of the existence of appellee's patent and though it was not shown to appellant prior to trial, appellant's counsel never asked to inspect it and obtained either himself or through Mr. Anderson copies of the patent at least two months before the trial. (PP. 49-50, Tran-

script). The trial judge offered to afford appellant time for rebuttal if counsel had been taken by surprise, which offer appellant's counsel declined. (PP. 49-51, Transcript). It is incredulous that experienced trial counsel for appellant did not anticipate that appellee's patent would be offered in evidence at the trial.

The appellee's patent is entitled to the same presumption of validity as the appellant's. (35 U.S.C.A. 282).

The judgment of the patent office officials in granting a patent in view of prior art is entitled to great weight, and the validity of such patent is to be overcome only by clear proof that they were mistaken and that there is a lack of patentable novelty. (*Otto v. Koppers Co.*, 147 F. Supp. 552, reversed on other grounds, 246 F. 2d 789; *Patterson-Ballagh Corp. v. Moss*, 201 F. 2d 403, 406).

As pointed out by the learned trial judge the Congress has of necessity in providing for the patenting of plants, 35 U.S.C.A., 161, 162, dispensed with many of the rigid requirements as to specifications, thus giving broad latitude to the administrative procedures in the Patent Office and that when that office with knowledge of the prior art in the crowded field of nectarines is satisfied that a new variety has been developed their finding should be given due weight. (P. 25, Transcript).

Commercial success may add strength to the prima facie showing of validity of a patent. (*Wilson Athletic*

Goods Mfg. Co. v. Kennedy Sporting Goods Mfg. Co., 133 F. Supp. 469, affirmed 233 F. 2d 280; *Baltz v. Botto*, 147 F. Supp. 468). According to the undisputed evidence for the year 1957, Red King commanded a higher price (\$4.74 per lug as opposed to \$4.18 a lug) than the Sun Grand on the auction markets. (PP. 354-355; Defendant's Exhibit K). Vaughn Girozian, packer and shipper to Eastern markets of Mr. Hagger's Red King nectarine testified as to the commercial success and acceptance of the accused nectarine. (PP. 517-518, Transcript).

In summary it is submitted that appellant has not only failed to sustain its burden of proof with respect to infringement of its patent but that appellee has by substantial and credible evidence demonstrated that his nectarine is a new and distinct variety and appellee respectfully prays that this honorable court affirm the judgment of the District Court below.

Dated, Visalia, California,

October 13, 1959.

Respectfully submitted,

WALCH & GRISWOLD,

GARETH W. HOUK,

By GARETH W. HOUK,

Attorneys for Appellee.

No. 16,352 ✓

IN THE
United States Court of Appeals
For the Ninth Circuit

CHARLES LARSEN,
Appellant,

vs.

PHIL S. GIBSON, Chief Justice,
Supreme Court of California,
JESSE W. CARTER, Associate Justice,
Supreme Court of California,
Appellees.

**Appeal from the United States District Court for the
Northern District of California,
Southern Division.**

BRIEF FOR APPELLEES.

STANLEY MOSK,
Attorney General of the State of California,

CLARENCE A. LINN,
Chief Assistant Attorney General,

PREBLE STOLZ,
Deputy Attorney General,
600 State Building, San Francisco 2, California,
Attorneys for Appellees.

FILED

MAR 27 1959

PAUL P. O'BRIEN, CLERK



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No. 16,352

IN THE

**United States Court of Appeals
For the Ninth Circuit**

CHARLES LARSEN,

Appellant,

VS.

PHIL S. GIBSON, Chief Justice,

Supreme Court of California,

JESSE W. CARTER, Associate Justice,

Supreme Court of California,

Appellees.

**Appeal from the United States District Court for the
Northern District of California,
Southern Division.**

BRIEF FOR APPELLEES.

STATEMENT OF THE CASE.

This is an action under the Federal Civil Rights Act, 42 U.S.C. §§ 1981 *et seq.*, for damages for an alleged denial of due process by the appellees, members of the California Supreme Court. Jurisdiction is predicated primarily upon 28 U.S.C. § 1343, although the appellant also relies upon § 1505 of the California Penal Code as establishing his cause of action. The

appellees moved for summary judgment or to dismiss the complaint, which motion was granted by the District Court on January 13, 1959 (CT 56). A formal order dismissing the complaint on the merits was entered on January 22, 1959 (CT 59). The appellant filed a notice of appeal on January 30, 1959 (CT 64), and his motion to appeal *in forma pauperis* was granted by the District Court (CT 60).

STATEMENT OF THE FACTS.

This is an action under the Federal Civil Rights Act, 42 U.S.C. §§ 1981 *et seq.*, to recover damages for a supposed denial of due process under the color of authority vested in the appellees by virtue of their offices as Chief Justice and Associate Justice of the Supreme Court of California. The District Court is vested with jurisdiction of such cases by virtue of 28 U.S.C. § 1343, regardless of citizenship or the amount in controversy.

The complaint alleges that appellant is a prisoner in the custody of officials of the State of California by virtue of two sentences: The first for burglary in the first degree in 1938 and the second for burglary in the second degree in 1953. Appellant alleges further that on July 3, 1958, he filed a petition for habeas corpus addressed to the appellee, Jesse W. Carter, Associate Justice of the Supreme Court of California, empowered by the laws of California to issue such a writ, and that the petition stated a question of law under the Constitution of the United States. Further,

appellant alleges that the petition was properly filed and that it stated a *prima facie* case. California law requires that all judges authorized to issue the writ of habeas corpus must do so without delay. Appellant concludes, therefore, that Associate Justice Carter had a duty to issue a writ of habeas corpus releasing him from custody.

Appellant alleges this duty was not performed; that the only order in regard to his petition was an order signed by Phil S. Gibson summarily denying his petition for habeas corpus; that this summary disposition did not determine the question of law presented by the petition; and that this summary disposition constituted a denial of due process under the Fourteenth Amendment to the Constitution of the United States.

From the face of the complaint it is apparent that appellant is complaining about the disposition of his petition for habeas corpus by the Supreme Court of California. The appellees filed with their motion to dismiss an affidavit of William I. Sullivan, Clerk of the Supreme Court of California. This affidavit shows that the appellant's petition for a writ of habeas corpus was treated in the normal course by referral from Justice Carter to the Supreme Court as a whole, and that, after consideration, the petition was denied by the Court acting as a whole (CT 50).

This District Court (Honorable Lloyd H. Burke) wrote an opinion disposing of the appellant's complaint on several grounds. First, he held that the Civil Rights Act did not in any way detract from the common law immunity of judges for acts done in the per-

formance of their official duties. Second, he held that the failure of the California Supreme Court to write a formal opinion did not constitute a denial of due process, particularly in view of the fact that another California appellate court had considered and written an opinion with regard to appellant's case, *People v. Larsen*, 144 C.A.2d 504, 301 P.2d 298. Finally, the court held that § 1505 of the California Penal Code which provides for a civil action against judges who refuse "a proper" application for a writ of habeas corpus could not support this action because there was no allegation of diversity of citizenship.

APPELLANT'S CONTENTIONS.

The appellant urges:

(1) That the common law immunity of judges is inapplicable to this case;

(2) That it was a denial of due process for the California Supreme Court not to write an opinion;

(3) That it was a denial of due process for the California Supreme Court to refuse to issue a writ of habeas corpus upon the appellant's application;

(4) That the practice of the California Supreme Court to refer petitions addressed to one member of the Court to the Court as a whole constitutes a denial of due process; and

(5) That the Federal Civil Rights Act (42 U.S.C. § 1981) gives appellant a remedy for these wrongs.

SUMMARY OF APPELLEES' ARGUMENT.

The conduct complained of was privileged; the California Supreme Court was under no constitutional obligation to write an opinion in denying the appellant's petition for a writ of habeas corpus; the appellant's petition did not state grounds for the issuance of the writ; the practice of the California Supreme Court of referring matters addressed to individual justices to the Court as a whole for disposition is well within the powers of the Court in the conduct of its business; and the District Court had no jurisdiction of a cause of action based on § 1505 of the California Penal Code.

ARGUMENT.

I. THE CONDUCT COMPLAINED OF WAS PRIVILEGED.

Even assuming the appellant's petition for habeas corpus was well founded and stated grounds for relief, he would not be entitled to damages from the judges who erroneously ruled adversely to his claim. The Civil Rights Act did not change the common law immunity of judges from suit for any act performed in the course of a matter in which the court had jurisdiction of the subject matter and the parties, *Francis v. Crafts*, Cir. 1, 203 F.2d 809, cert. den. 346 U.S. 845; *Kenney v. Fox*, Cir. 6, 232 F.2d 288; *Peckham v. Scanlon*, Cir. 7, 241 F.2d 761; *Tate v. Arnold*, Cir. 8, 223 F.2d 782; *Ryan v. Scoggin*, Cir. 10, 245 F.2d 54; cf. *Tenney v. Brandhove*, 341 U.S. 367.

The appellant refers to, and relies upon *Picking v. Penn. R. Co.*, Cir. 3, 151 F.2d 240 (1945), which holds in this respect contrary to the authorities cited in the previous paragraph. That decision antedates the Supreme Court's decision in *Tenney v. Brandhove*, 341 U.S. 367, and is no longer considered binding even within the third circuit, *Ginsberg v. Stern*, 125 F. Supp. 596; *United States v. Carson*, 126 F.Supp. 137.

II. THE CALIFORNIA SUPREME COURT WAS UNDER NO CONSTITUTIONAL OBLIGATION TO WRITE AN OPINION IN DENYING THE APPELLANT'S PETITION FOR A WRIT OF HABEAS CORPUS.

The appellant complains of the failure of the California Supreme Court to explain the basis for its decision denying his petition for a writ of habeas corpus. He has no constitutional right to an opinion. Presumably he is constitutionally entitled to some disposition of his application, but no explanation is required by statute or practice of the California courts. Obviously to impose such a duty would place an impossible burden upon the courts. Furthermore, the appellant has had at least one court opinion on the subject of his present application, *People v. Larsen*, 144 C.A.2d 504, 301 P.2d 298.

III. THE APPELLANT'S PETITION FOR A WRIT OF HABEAS CORPUS DID NOT STATE GROUNDS FOR THE ISSUANCE OF A WRIT.

Contrary to the appellant's confident assertion, his petition for a writ of habeas corpus was on its face inadequate and did not state grounds for release. His claim was that he had been sentenced in violation of the constitutional prohibition of *ex post facto* legislation. The appellant was first convicted in 1938. The sentence was suspended, and he was placed on probation. In 1947 the California legislature repealed the statute providing for specified "good time" credits for persons *thereafter* incarcerated. In 1953 the appellant was sent to the state prison under the second conviction and the suspension of his first sentence was revoked and ordered to be served concurrently with his new sentence. The appellant's argument is that he is entitled to the "good time" credits because he was convicted prior to the repeal of the "good time" credits statute even though he was never in prison while that statute was in force. The repeal of the good time credit statute was not an increase in the penalty for the crime committed in 1938. It was no more than a recognition that such a statutory schedule of credits was inconsistent with the purpose of the indeterminate sentence procedure. The statute itself did not change the penalty for the crime—it related solely to the administration of the prisons (*In re Nelson*, 185 Cal. 594). Even prisoners incarcerated prior to the repeal acquired no vested rights to credits earned.

IV. THE PRACTICE OF THE CALIFORNIA SUPREME COURT OF REFERRING MATTERS ADDRESSED TO AN INDIVIDUAL JUSTICE TO THE COURT AS A WHOLE IS WELL WITHIN THE POWERS OF THE COURT IN THE CONDUCT OF ITS BUSINESS.

The appellant complains that the practice of the California Supreme Court, as revealed in the affidavit of the Clerk of that Court, William I. Sullivan, in some way infringes upon his rights. Mr. Sullivan stated the practice as follows: “[I]t has been the practice of the Justices of the Supreme Court of California when a matter is presented to any one of them as an individual Justice to refer the matter to the Court as a whole unless unusual circumstances make such a referral inappropriate” (CT 50). The appellant’s argument seems to be that this in some way derogates from his right to have a decision from the individual Justice. Such is plainly not the case—any decision by an individual Justice would be reviewable by the Court as a whole, and the practice of the Court is simply a device which avoids unnecessary paperwork and simplifies the procedures of the Court. It in no way deprives the appellant of his right to a decision.

V. THE DISTRICT COURT HAD NO JURISDICTION OF A CAUSE OF ACTION BASED ON § 1505 OF THE CALIFORNIA PENAL CODE.

To some degree, which is not entirely clear, the appellant relies on § 1505 of the California Penal Code. This statute provides:

“If any judge, after a proper application is made, refuses to grant an order for a writ of habeas

corpus, or if the officer to whom such writ may be directed, refuses obedience to the command thereof, he shall forfeit and pay to the person aggrieved a sum not exceeding five thousand dollars, to be recovered by action in any court of competent jurisdiction."

It has already been shown that the appellant's petition was not a "proper" application within the meaning of this statute, but in any event it is apparent that the District Court would not have jurisdiction over a claim based on this statute in the absence of proper allegations of diversity of citizenship, which are not alleged here. Without diversity of citizenship the appellant has no right to sue in the federal courts on a state cause of action.

CONCLUSION.

For the foregoing reasons the judgment of the District Court dismissing the appellant's complaint should be affirmed.

Dated, San Francisco, California,
March 26, 1959.

Respectfully submitted,

STANLEY MOSK,

Attorney General of the State of California,

CLARENCE A. LINN,

Chief Assistant Attorney General,

PREBLE STOLZ,

Deputy Attorney General,

Attorneys for Appellees.



No. 16354 ✓

United States
Court of Appeals
for the Ninth Circuit

JOHN D. BUDKE,

Appellant,

VS.

KAISER-FRAZER COMPANY OF ANCHOR-
AGE,

Appellee.

Transcript of Record

Appeal from the District Court
for the District of Alaska,
Third Division

FILED
JUL 23 1959
PAUL P. O'BRIEN, CLERK



No. 16354

United States
Court of Appeals
for the Ninth Circuit

JOHN D. BUDKE,

Appellant,

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Transcript of Record

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for the District of Alaska,
Third Division



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[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matters appearing in the original certified record are printed literally in *italic*; and, likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible, an omission from the text is indicated by printing in *italic* the two words between which the omission seems to occur.]

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NAMES AND ADDRESSES OF COUNSEL

BELL, SANDERS & TALLMAN, by
JAMES K. TALLMAN,

Box 1599,

Anchorage, Alaska,

For Appellant.

DAVIS, HUGHES & THORSNESS, by
JOHN P. HUGHES,

Box 477,

Anchorage, Alaska,

For Appellee.

In the District Court for the District of Alaska,
Third Division

No. A-10327

JOHN D. BUDKE,

Petitioner,

vs.

KAISER-FRAZER COMPANY OF ANCHOR-
AGE,

Defendant.

JUDGMENT ON DECISION AND AWARD OF
ALASKA INDUSTRIAL BOARD

This matter came on regularly to be heard on 11th of October, 1954, on the petition for a judgment on a decision and award of the Alaska Industrial Board. It appearing to the Court: That on September 7, 1954, in the case of "John D. Budke, Applicant, vs. Kaiser-Frazer Co. of Anchorage, Defendant," the Alaska Industrial Board made its Decision and Award, awarding petitioner certain compensation; that a certified copy of such Decision and Award is on file herein; that no part of said compensation awarded has been paid; and that no appeal has been taken from said Decision and Award by defendant within the time allowed by law; and the court being fully advised in the premises; it is hereby Ordered, Adjudged and Decreed:

1. That petitioner have judgment against defendant as follows:

a. As compensation for temporary total disability, the sum of \$78.00 per week from October 11, 1953, until such time as petitioner has been as far restored physically as the permanent character of his injuries will permit, but not to exceed a total of 24 months from and after October 11, 1953.

b. For permanent partial disability, the sum of \$7,200.00.

c. For all expenses incurred by petitioner for all such medical, surgical, hospital and other treatment and care as is provided for by Section 43-3-2 ACLA 1949, in respect to his injuries in this matter.

d. For petitioner's costs and disbursements incurred herein.

e. For a reasonable attorney's fee for petitioner.

f. For interest and penalty as provided in Section 43-3-3 ACLA 1949.

2. That notification of the entry of this judgment be given by the clerk of this court to the parties to the above-entitled cause.

Done in Open Court at Anchorage, Alaska, this 11th day of October, 1954.

/s/ JAMES L. McCARREY, JR.,
District Judge.

[Endorsed]: Filed and entered October 11, 1954.

[Title of District Court and Cause.]

EXECUTION

The President of the United States of America
To the Marshal of Said Division and Territory,
Greeting:

Whereas, John D. Budke recovered judgment against Kaiser-Frazer Company of Anchorage in the United States District Court for said Division and Territory, holding terms as aforesaid on the 11th day of October, 1954, for the sum of \$7,200.00 Dollars with interest thereon at the rate of 6% per annum until paid, and costs of suit, amounting to
.....

Therefore, in the name of the United States of America, you are hereby commanded to levy upon and seize and take into execution the personal property of the said Kaiser-Frazer Company of Anchorage in your Division of said District sufficient, subject to execution, to satisfy said judgment, interest and increased interest, costs and increased costs, and make sale thereof according to law; and if sufficient personal property cannot be found, then you are further commanded to make the amount of said judgment, interest, and increased cost out of proceeds of the sale of Lot Four (4) in Block Nineteen (19) of the East Addition to the Original Townsite of Anchorage.

Herein Fail Not, and have you then and there this writ.

Judgment	\$7,200.00
Int. to 11/20/57.....	1,333.10
Cost of Execution.....	3.20

Total\$8,536.30

Witness the Honorable J. L. McCarrey, Jr.,
Judge of said Court, and the seal of said Court
hereto affixed this November 21, 1957.

[Seal] WM. A. HILTON,
Clerk;

By /s/ CLARA RHODES,
Deputy.

Received December 9, 1957.

[Endorsed]: Filed December 11, 1957.

[Title of District Court and Cause.]

MOTION FOR ORDER TO SHOW CAUSE AND TEMPORARY INJUNCTION

Plaintiff, above named, John D. Budke, by and
through his attorneys of record, moves the court
as follows:

I.

For the issuance of an order to show cause to the
United States Marshal for the Third Judicial Di-
vision, District of Alaska, to appear, and show
cause, if any, why he should not be ordered to com-
plete his duties in connection with the execution

issued in the above-entitled action on the 21st day of November, 1957, and sell the real property described in said execution and to continue publication of the Notice of Marshal's Sale.

II.

For an order enjoining the said United States Marshal from releasing the levy of execution heretofore effected upon the said real property, pending the hearing upon the order to show cause.

BELL, SANDERS &
TALLMAN,

By /s/ JAMES K. TALLMAN,
Attorneys for Plaintiff.

[Endorsed]: Filed February 11, 1958.

[Title of District Court and Cause.]

AFFIDAVIT

United States of America,
Territory of Alaska—ss.

James K. Tallman, being first duly sworn, upon his oath, deposes and states:

That he is the attorney of record in the above-captioned case for the above-named plaintiff, and makes this affidavit of his own knowledge and information.

That affiant was served with a letter from the Office of the United States Marshal, signed by

Chief Deputy David A. Drew, and given to affiant by the said David A. Drew on the 5th day of February, 1958. That a copy of said letter is attached hereto, marked Exhibit "A."

That in addition to receiving the aforesaid letter, affiant also received a copy of an alleged Third-Party Claim at the same time that the letter was served upon affiant. That a copy of said Third-Party Claim is attached hereto and marked Exhibit "B."

That in addition to receiving the letter and Third-Party Claim as aforementioned, affiant was informed by the Deputy United States Marshal that the levy of execution herein would be released unless the bond as demanded in said letter were furnished.

Further affiant saith not.

/s/ JAMES K. TALLMAN.

Subscribed and Sworn to Before Me this 10th day of February, 1958.

[Seal] /s/ VIRINDA RANDALL,
Notary Public in and for
Alaska.

My commission expires: 10-10-61.

EXHIBIT A

Department of Justice
Office of United States Marshal
Third Division, District of Alaska
Anchorage, Alaska

February 5, 1958.

To: Bell, Sanders & Tallman.

This is to advise you that on the 4th day of February, 1958, a Third-Party Claim was filed with the U. S. Marshal in the case of John D. Budke vs. Kaiser-Frazer Co. of Anchorage, District Court Cause No. A-10,327.

Pursuant to Section 55-9-84 of the Compiled Laws of Alaska, 1949, it now becomes the duty of this office to demand a bond in double the value set by the third-party claimant, Northwest Auto Sales, Inc.

This office considers that a reasonable time to furnish the said bond would terminate at 5:00 p.m. Monday, February 10, 1958.

A copy of the Third-Party Claim was delivered by hand to James K. Tallman at the U. S. Marshal's office on the 5th day of February, 1958.

FRED S. WILLIAMSON,
U. S. Marshal;

By /s/ DAVID A. DREW,
Deputy.

EXHIBIT B

In the District Court for the District of Alaska,
Third Judicial Division

No. A-10,327

JOHN D. BUDKE,

Plaintiff,

vs.

KAISER-FRAZER CO. OF ANCHORAGE,

Defendant.

THIRD-PARTY CLAIM

To: Fred S. Williamson, United States Marshal,
District of Alaska, Third Division, and to John
D. Budke, the above-named plaintiff, and to
Bell, Sanders & Tallman, attorneys for the
plaintiff, John D. Budke, and to Whom It May
Concern:

You and each of you will please take notice
that Northwest Auto Sales, Inc., an Alaskan cor-
poration, is the owner in fee simple of and claims
certain real property situated in the City of
Anchorage, Third Judicial Division, Territory of
Alaska, and more particularly described as Lot 4,
in Block 19, of the East Addition to the Original
Townsite of Anchorage, Alaska, according to the
official map or plat of such property on file and of
record in the office of the United States Commis-

sioner and ex officio Recorder for Anchorage Precinct at Anchorage, Alaska, together with all the tenements, hereditaments and appurtenances thereunto belonging or in any way appertaining.

It appears that you have levied execution upon the above-described property in the above-entitled action under execution dated November 21, 1957, and that the property above described is presently being advertised for sale by you under such execution.

Please be advised that Kaiser-Frazer Co. of Anchorage, the defendant in the above-entitled action, has no interest whatsoever in or to the property above described and levied upon by you. That Northwest Auto Sales, Inc., an Alaskan corporation, is the owner of the above-described property and all of the same in fee simple title under Marshal's Deed dated July 15, 1957, recorded July 16, 1957, in book 246 at page 334 of the Records of Anchorage recording precinct, Third Judicial Division, Territory of Alaska, at Anchorage, Alaska, wherein Fred S. Williamson, United States Marshal for the District of Alaska, Third Division, as grantor, conveyed the above-described property to Northwest Auto Sales, Inc. That the value of the property above described is \$15,000.00. That Northwest Auto Sales, Inc., is entitled to the immediate and undisturbed possession of the above-described property as the owner thereof.

Dated at Anchorage, Alaska, this 4th day of February, 1958.

NORTHWEST AUTO SALES,
INC.,

An Alaskan Corporation;

By /s/ EDWARD R. MEEKINS,
Its President.

United States of America,
Territory of Alaska—ss.

Edward R. Meekins, being first duly sworn, upon his oath deposes and says: That he is the president of Northwest Auto Sales, Inc., an Alaskan corporation. That Northwest Auto Sales, Inc., is the owner in fee simple of certain real properties situated in the City of Anchorage, Anchorage recording precinct, Third Judicial Division, Territory of Alaska, and more particularly described as follows: Lot 4, in Block 19 of the East Addition to the Original Townsite of Anchorage, Alaska, according to the official map or plat of such property on file and of record in the office of the United States Commissioner and ex officio Recorder for Anchorage Precinct at Anchorage, Alaska, together with all the tenements, hereditaments and appurtenances thereunto belonging or in any way appertaining.

That the United States Marshal for the District of Alaska, Third Division, claims to have levied

execution on the above-described property by execution issued out of the District Court for the District of Alaska, Third Division, in the above-entitled cause, such execution being dated the 21st day of November, 1957, and such execution having been supposedly levied upon the above-described property, on or about the 9th day of December, 1957, by service made upon Edward R. Meekins as the occupant of the property. That affiant further says that the above-described property is being advertised for sale by the United States Marshal for the District of Alaska, Third Division, under the execution above mentioned.

That the title of Northwest Auto Sales, Inc., to the property above described is a conveyance in the nature of a Marshal's Deed, executed July 15, 1957, by Fred S. Williamson, United States Marshal, as grantor, to and in favor of Northwest Auto Sales, Inc., as grantee, wherein the above-described property was conveyed in fee simple to the claimant Northwest Auto Sales, Inc. That such deed was recorded on the 16th day of July, 1957, in book 246 at page 334 of the records of Anchorage recording precinct at Anchorage, Alaska. That Kaiser-Frazer Co. of Anchorage, the above-named defendant, had no title or interest whatsoever in or to the property at the time of the supposed levy of execution in this matter and that such defendant had no interest whatsoever in or to the property and that the claimant Northwest Auto Sales,

Inc., is the sole owner of the property above described.

/s/ EDWARD R. MEEKINS,
President of Northwest Auto
Sales, Inc.

Subscribed and Sworn to before me this
day of February, 1958.

/s/ EDWARD V. DAVIS,
Notary Public in and for the
Territory of Alaska.

My Commission expires: 11-7-1958.

[Endorsed]: Filed February 11, 1958.

[Title of District Court and Cause.]

NOTICE OF MARSHAL'S SALE

A public notice is hereby given that under and by virtue of a Writ of Execution issued on the 21st day of November, 1957, by the Honorable J. L. McCarrey, Jr., Judge of the District Court for the Third Division, Territory of Alaska, I will offer for sale at public auction to the highest bidder for cash on the 24th day of February, 1958, at the hour of 10:30 o'clock in the forenoon, at the West Front steps of the Federal Building, Anchorage, Alaska, the following-described real property, to wit:

Lot Four (4), in Block Nineteen (19) of the East Addition of the Original Townsite of Anchorage, according to the map and plat on

file in the office of the U. S. Commissioner and
Ex-officio Recorder of Anchorage Precinct,
Territory of Alaska,

or as much thereof as it may be sufficient to pay a
judgment in the sum of Seven Thousand Two Hun-
dred Dollars (\$7,200.00), together with interest at
the rate of Six Per Cent (6%) per annum from
the 11th day of October, 1954, together with costs
and expenses of this sale.

January 24th, 1958.

FRED S. WILLIAMSON,
U. S. Marshal;

By /s/ LEE A. WILLIAMS,
Deputy.

Court No. A-10,327
Marshal's No. 8853

United States Marshal,
Third Judicial Division,
Territory of Alaska.

I hereby certify and return that I received the
within and hereto annexed Writ of Execution on
the 9th day of December, 1957, at Anchorage, and
that on the 9th day of December, 1957, I personally
served the same in Anchorage, Third Judicial Divi-
sion, Territory of Alaska, by then and there de-
livering to and leaving a copy thereof to Edward R.
Meekins, occupant of the following-described prop-

erty belonging to defendant Kaiser-Frazer Company of Anchorage:

Lot Four (4), in Block Nineteen (19) of the East Addition of the Original Townsite of Anchorage, according to the map and plat on file in the office of the U. S. Commissioner and Ex Officio Recorder of Anchorage Precinct, Territory of Alaska.

I further certify that I noticed the same for Sale, in the manner prescribed by the law in such cases, on the 24th day of January, 1958, whereas said Sale was to be held on the 24th day of February, 1958.

Further, I received a copy of a Third-Party Claim, in the above-numbered cause, from North West Auto Sales, Inc., on the 4th day of February, 1958.

Further, on the 5th day of February, 1958, I demanded from the Plaintiff a bond in double the value set by the Third-Party Claimant, and gave said Plaintiff reasonable time to produce said bond.

Further, Plaintiff failed to produce such a bond; therefore, I cancelled the said Sale, and released said Execution.

Dated: Feb. 27, 1958.

FRED S. WILLIAMSON,
United States Marshal;

By /s/ LEE A. WILLIAMS,
Deputy U. S. Marshal.

Posting Notice	\$ 3.00
Mileage20
Advertising	29.90
<hr/>	
Total	\$33.10

[Endorsed]: Filed March 4, 1958.

[Title of District Court and Cause.]

MOTION FOR ORDER TO SHOW CAUSE

Plaintiff, by and through his attorneys of record, Bell, Sanders & Tallman, moves this Honorable Court as follows:

For the issuance of an order directed to Northwest Auto Sales, Inc., an Alaskan corporation, to appear, by and through its duly elected officers, and show cause, if any said corporation has, why a special execution should not be issued in the above-entitled matter and the property consisting of Lot Four (4), in Block Nineteen (19), of the East Addition to the Original Townsite of Anchorage, Alaska, according to the official map or plat of such property on file and of record in the office of the United States Commissioner and Ex Officio Recorder for Anchorage Precinct, Anchorage, Alaska, together with all the tenements, hereditaments, and appurtenances thereunto belonging or in anyway appertaining, be levied upon and ordered sold by the United States Marshal for the Third Judicial Division, Territory of Alaska.

Dated at Anchorage, Alaska, this 7th day of November, 1958.

BELL, SANDERS &
TALLMAN,

By /s/ JAMES K. TALLMAN,
Attorneys for Plaintiff.

[Endorsed]: Filed November 7, 1958.

[Title of District Court and Cause.]

AFFIDAVIT

United States of America,
Territory of Alaska—ss.

James K. Tallman, being first duly sworn, upon his oath, deposes and states:

That he is the attorney of record in the above-captioned case for the above-named plaintiff, and makes this affidavit of his own knowledge and information.

That affiant caused to be issued an execution in the above-captioned matter and directed the Marshal to levy upon the following-described property:

Lot Four (4), in Block Nineteen (19) of the East Addition of the Original Townsite of Anchorage, according to the map and plat on file in the office of the U. S. Commissioner and Ex Officio Recorder of Anchorage Precinct, Territory of Alaska.

Affiant further states that he prepared a Notice

of Marshal's Sale for the U. S. Marshal's office which was signed by Lee A. Williams and publication was made in the Anchorage Daily Times giving notice of the sale of the above-described property.

Affiant further states that on or about the 4th day of February, 1958, Northwest Auto Sales, Inc., an Alaskan corporation, served a purported Third-Party Claim upon the U. S. Marshal for the Third Judicial Division, Territory of Alaska, and the Marshal then refused to sell the property as indicated by the Notice of Marshal's Sale unless the plaintiff were to put up a bond in double the value set by the third-party claimant, which would have required a bond in the amount of \$30,000.00.

Because the plaintiff was unable to raise a bond in the amount of \$30,000.00, the U. S. Marshal released the levy upon said property and refused to continue with the sale of the property, although affiant prepared an Order to Show Cause and took steps to attempt to get the Court to direct the Marshal to continue with the sale. In connection with such attempt affiant also prepared a Memorandum Brief and an Affidavit which were prepared on February 10, 1958, and filed on February 11, 1958.

Affiant further states that the property levied upon is the same property that is the subject of the action in Case No. A-9729, also decided by the above-entitled court, which case essentially held that the plaintiff's judgment lien was not affected by

the Marshal's sale under which Northwest Auto Sales, Inc., acquired the title that it allegedly has at the present time and that the position of the parties is set forth in the Memorandum Brief heretofore filed.

Affiant further states that in affiant's opinion it will be necessary to bring an action to litigate the priority of the claims at some future time as between John D. Budke and Northwest Auto Sales, Inc., but that Budke, under and by virtue of his judgment, should be entitled to sell the interest, if any, in the property and then the priority as between the Northwest Auto Sales, Inc., and the purchaser at this next Marshal's sale could be determined. However, affiant further states that it is his opinion that an action now would be premature if brought before the plaintiff, John D. Budke, had perfected what rights he has, to as great an extent as they can be perfected, under the judgment in this case, and that the method of doing so is by executing upon the property herein, and having said property sold.

Further affiant saith not.

/s/ JAMES K. TALLMAN.

[Endorsed]: Filed November 7, 1958.

[Title of District Court and Cause.]

ORDER TO SHOW CAUSE

This matter coming on to be heard on the plaintiff's Motion for Order to Show Cause, and the

Court having read the Affidavit on file herein, and having read the Memorandum Brief in support thereof, and being fully advised in the premises,

It Is, Therefore, Ordered that Northwest Auto Sales, Inc., an Alaskan corporation, appear, by and through its duly elected officers, before the undersigned District Judge in the Courtroom at Anchorage, Alaska, on the 17th day of November, 1958, at the hour of 1:30 o'clock p.m. of said day, and show cause, if said corporation has any, why a special execution should not be issued in the above-entitled matter and the property consisting of Lot Four (4), in Block Nineteen (19), of the East Addition to the Original Townsite of Anchorage, Alaska, according to the official map or plat of such property on file and of record in the office of the United States Commissioner and Ex Officio Recorder for Anchorage Precinct, Anchorage, Alaska, together with all the tenements, hereditaments, and appurtenances thereunto belonging or in anyway appertaining, be levied upon and ordered sold by the United States Marshal.

Dated at Anchorage, Alaska, this 7th day of November, 1958.

/s/ JAMES L. McCARREY, JR.,
District Judge.

[Endorsed]: Filed and entered November 7, 1958.

[Title of District Court and Cause.]

RETURN ON ORDER TO SHOW CAUSE

Comes Now Northwest Auto Sales, Inc., an Alaska corporation, by and through Edward R. Meekins, its president, and in answer to the order to show cause entered by the above-entitled court in the above-entitled action on the 7th day of November, 1958, makes this return to such order to show cause and shows to the court as follows:

I.

Northwest Auto Sales, Inc., by reference makes all of the records and files of Cause No. A-9729, District Court for the District of Alaska, Third Judicial Division, entitled First National Bank of Anchorage, a corporation, plaintiff, vs. Kaiser-Fraser of Anchorage, Inc., et al., and Cause No. A-10,327, District Court for the District of Alaska, Third Judicial Division, entitled John D. Budke, petitioner, vs. Kaiser-Fraser Company of Anchorage, defendant, the above-entitled cause, a part of this return and requests the court to take judicial notice of the matters contained in such records and files.

II.

That as will appear from the records and files of the causes of action above mentioned, the plaintiff, John D. Budke, never at any time had nor does he now have any lien against the property known as Lot 4 in Block 19 of the East Addition to the Original Townsite of Anchorage, Alaska, by reason

of the fact that the defendant above named, Kaiser-Frazer Company of Anchorage, never at any time owned the property above described and such property never at any time stood in the name of that company.

III.

That Northwest Auto Sales, Inc., an Alaska corporation, is not a party to the above-entitled action and accordingly is not a proper party to be summoned into such action by an order to show cause, if in fact an order to show cause is appropriate in this type of matter.

IV.

That Northwest Auto Sales, Inc., an Alaska corporation, has not owned any interest in the property known as Lot 4 of Block 19 of the East Addition to the Original Townsite of Anchorage, more particularly described in Mr. Tallman's affidavit and in the order to show cause, since the 23rd day of February of 1958, when Northwest Auto Sales, Inc., an Alaska corporation, sold such property to Karl V. Holmberg and Julian Longoria. That the deed from Northwest Auto Sales, Inc., to Karl V. Holmberg and Julian Longoria was dated February 25, 1958, and was recorded on May 5, 1958, at Book 160 at page 1 of the records of Anchorage Recording Precinct at Anchorage, Alaska.

V.

That as will appear from the affidavit of Edward R. Meekins, which is presented herewith and which

by reference is made a part hereof to the same extent as though set out in full herein, the title to Lot 4 of Block 19 of the East Addition to the Original Townsite of Anchorage, Alaska, insofar as it is here material is as follows:

(a) Kaiser-Fraser of Anchorage, Inc., an Alaska corporation, acquired the property known as Lot 4 of Block 19 of the East Addition to the Original Townsite of Anchorage, Alaska, from one Nels O. Nelson, by Warranty Deed dated January 8, 1952, recorded August 7, 1952, in Book 137 at page 46 of the records of Anchorage Recording Precinct at Anchorage, Alaska.

(b) Lot 4 of Block 19 of the East Addition to the Original Townsite of Anchorage, Alaska, as above described, was mortgaged on April 20, 1953, by its owner, Kaiser-Fraser of Anchorage, Inc., to the First National Bank of Anchorage, a national banking association, for the sum of Ten Thousand (\$10,000.00) Dollars and that such mortgage was recorded on April 23, 1953, in Book 155 at page 290 of the records of Anchorage Recording Precinct, at Anchorage, Alaska.

(c) That the mortgage was not paid and that the mortgagee, First National Bank of Anchorage, in cause No. A-9729 of this court, foreclosed such mortgage by decree of this court entered October 12, 1955. That under and by virtue of such decree of foreclosure the property known as Lot 4 of Block 19 of the East Addition to the Original Town-

site of Anchorage, Alaska, as above described, was sold on December 5, 1955, to the undersigned Northwest Auto Sales, Inc., at a price of Thirteen Thousand and Four (\$13,004.00) Dollars. The sale was confirmed by this court on July 6, 1956. The property was not redeemed from the sale by anybody and the United States Marshal for the District of Alaska, Third Judicial Division, executed a deed conveying the property above described to Northwest Auto Sales, Inc., and that such deed was recorded on July 16, 1957, at Book 246, page 334 of the records of Anchorage Recording Precinct at Anchorage, Alaska.

VI.

That as will appear from the affidavit of Mr. Tallman in support of the motion for order to show cause the undersigned Northwest Auto Sales, Inc., on or about the 4th day of February, 1958, filed with the United States Marshal for the Third Judicial Division, District of Alaska, a certain third-party claim with reference to the property known as Lot 4 in Block 19 of the East Addition, as above described, and with reference to a purported execution issued out of this court in the above-entitled cause and dated November 21, 1957. And the United States Marshal, as provided by law, demanded a bond of the plaintiff Budke, in order to hold such property as against the third-party claim. The bond was not furnished and the property was released.

VII.

That as Northwest Auto Sales, Inc., is informed,

and so alleges the fact to be, petitioner Budke has no right under any circumstances to issue an execution against Northwest Auto Sales, Inc., and has no right at all to issue any execution against the property known as Lot 4 of Block 19 of the East Addition, as above described, and that if an execution were issued and attempted to be levied against the property that any such levy would cloud the title to the property to the damage of the owners of the property and without any right whatsoever therein on the part of the petitioner. Furthermore Northwest Auto Sales, Inc., alleges that under the law that if an execution were to be levied against the property above described that the owners of the property would be entitled to file a third-party claim as a third-party claim was filed by Northwest Auto Sales, Inc., and in that event the law is mandatory and the Marshal could not retain the property as against such third-party claim unless a bond were put up by the plaintiff to hold the execution levied. Mr. Tallman in his affidavit has stated that the petitioner is unable or unwilling to put up a bond. Accordingly any execution that might be issued by this court would be the performance of a vain and useless act.

VIII.

That petitioner in this action is attempting to do by indirection what he cannot do and which he knows he cannot do by direction. As a matter of fact, and as will appear from all the records and files of this action, and of cause No. A-9729, if

petitioner thinks he has any right whatsoever in or to the property described as Lot 4 in Block 19 of the East Addition, as above described such right will have to be determined by an action in this court and not by an ex parte proceeding for levying execution against property upon which the petitioner never had and does not now have any lien and property which never belonged and does not now belong to the judgment defendant above named.

IX.

This return is based on all the records and files of the above-entitled cause and of cause No. A-9729, both in the District Court for the District of Alaska, Third Judicial Division, and is based on the affidavit of Edward R. Meekins presented herewith.

Wherefore, having fully made return to the order to show cause entered in the above-entitled matter by this court on the 7th day of November, 1958, Northwest Auto Sales, Inc., an Alaska corporation, prays that special execution should not be issued in the above-entitled matter and that no attempt be made to levy any execution on Lot 4 of Block 19 of the East Addition to the Original Townsite of Anchorage, Alaska, or other proceedings taken with reference to such property and prays for the costs, including a reasonable attorney's fee in favor of Northwest Auto Sales, Inc., with reference to these proceedings.

Dated at Anchorage, Alaska, this 15th day of November, 1958.

NORTHWEST AUTO SALES,
INC.,

An Alaska Corporation;

By /s/ EDWARD R. MEEKINS,
President.

Service of copy acknowledged.

[Endorsed]: Filed November 15, 1958.

[Title of District Court and Cause.]

AFFIDAVIT

United States of America,
Territory of Alaska—ss.

Edward R. Meekins, being first duly sworn, upon his oath deposes and says:

That he has caused a record search to be made concerning the property known as Lot 4 in Block 19 of the East Addition to the Original Townsite of Anchorage, Alaska, and herein concerned, and states the fact in such matter to be as follows as disclosed by the records of Anchorage Recording Precinct at Anchorage, Alaska:

1. Title to the property above described on the 8th day of January, 1952, stood in one Nels O. Nelson. That Nels O. Nelson, by Warranty Deed, dated January 8, 1952, recorded August 7, 1952, in

Book 137 at page 46 of the records of Anchorage Recording Precinct at Anchorage, Alaska, conveyed the property above described to a corporation known as Kaiser-Fraser of Anchorage, Inc.

2. That on April 20, 1953, Kaiser-Fraser of Anchorage, Inc., mortgaged the property above described and herein concerned to the First National Bank of Anchorage, Alaska, for the sum of Ten Thousand (\$10,000.00) Dollars. That such mortgage was recorded on April 23, 1953, in Book 155 at page 290 of the records of Anchorage Recording Precinct at Anchorage, Alaska.

3. That the District Court for the District of Alaska, Third Judicial Division, in cause No. A-9729 of such court, foreclosed the mortgage described in the preceding paragraph by decree dated October 12, 1955, and that such decree directed the United States Marshal for the District of Alaska, Third Judicial Division, to sell the property described as Lot 4 in Block 19 of the East Addition, as above described. That under such decree the property was sold on December 5, 1955, to Northwest Auto Sales, Inc., an Alaska corporation, and that such sale was confirmed by the above-entitled court on July 6, 1956. No redemption was made from the sale, either by the petitioner in the above-entitled cause, or otherwise, and the United States Marshal by Marshal's Deed conveyed the property known as Lot 4 of Block 19 of the East Addition, as above described, to Northwest Auto Sales, Inc. That such Marshal's Deed was recorded July 16,

1957, in Book 246 at page 334 of the records of Anchorage Recording Precinct at Anchorage, Alaska.

4. That Northwest Auto Sales, Inc., was the record owner of the property above described until February 25, 1958, at which time it sold the property to Karl V. Holmberg and Julian Longoria and conveyed the property to such parties by deed dated that date and recorded May 5, 1958, in Book 160 at page 1 of the records of Anchorage Recording Precinct at Anchorage, Alaska.

5. That the records of Anchorage Recording Precinct do not disclose that Kaiser-Fraser Company of Anchorage, the above-named defendant, ever had any interest whatsoever in the property known as Lot 4 of Block 19 of the East Addition to the Original Townsite of Anchorage, Alaska.

/s/ EDWARD R. MEEKINS.

Subscribed and Sworn to before me this 15th day of November, 1958.

[Seal] /s/ EDWARD V. DAVIS,

Notary Public in and for the
Territory of Alaska.

My Commission expires: 11-7-1962.

Receipt of copy acknowledged.

[Endorsed]: Filed November 15, 1958.

[Title of District Court and Cause.]

M.O. RENDERING ORAL DECISION (TD)

Before the Honorable J. L. McCarrey, Jr., District Judge.

This matter comes before the Court on an order to show cause why execution on the plaintiff's judgment should not be allowed, argument having heretofore been heard on November 17, 1958, and decision reserved.

The Court hereby renders its oral decision: For the reason that the defendant, Kaiser-Frazer, showed to the Court that Workman's Compensation lien judgment of the plaintiff was never perfected, and for the further reason that the plaintiff showed there was two unsatisfied tax liens, one to the federal government and one to the Territory of Alaska, which are prior to the lien of the plaintiff, the Court now finds that the judgment of the plaintiff is not entitled to execution and further finds that the determination of the marshal requiring that plaintiff post bond in twice the amount is proper.

The Court hereby holds that the Order to Show Cause should now be dismissed.

Entered November 18, 1958.

In the District Court for the District of Alaska,
Third Judicial Division

No. A-10,327

(See Also A-9729, First National Bank of Anchorage v. Kaiser-Fraser of Anchorage, Inc.)

JOHN D. BUDKE,

Petitioner,

vs.

KAISER-FRASER COMPANY OF ANCHORAGE,

Defendant.

ORDER

The above-entitled matter came on for hearing before this court, before the Honorable J. L. McCarrey, Jr., District Judge, sitting without the aid of a jury, on the 17th day of November, 1958, on an order to show cause entered at the request of the petitioner John D. Budke in cause of action No. A-10,327, above described. In answer to the order to show cause Northwest Auto Sales, Inc., an Alaska corporation, filed its return on order to show cause, together with the affidavit of Edward R. Meekins, as to the title to the property concerned in the action designated as No. A-9729.

The matter was argued to the court by counsel for the respective parties and the court took the matter under advisement and being fully and duly advised in the premises and having heretofore and

on the 18th day of November, 1958, returned oral decision in the matter.

Now, Therefore, in accordance with the oral decision it is hereby Ordered that the order to show cause entered heretofore by this court in cause number A-10,327 is hereby dismissed.

Done at Anchorage, Third Judicial Division, Territory of Alaska, this 10th day of December, 1958.

/s/ J. L. McCARREY, JR.,
District Judge.

We object to this order.

/s/ BAILEY & BELL.

Receipt of copy acknowledged.

[Endorsed]: Filed and entered December 10, 1958.

[Title of District Court and Cause.]

NOTICE OF APPEAL

Notice is hereby given that John D. Budke, Petitioner above named, hereby appeals to the United States Court of Appeals for the Ninth Circuit from the Minute Order of the above-entitled Court as follows:

M. O. Rendering Oral Decision (TD)

“No. A-10,327, John D. Budke, vs. Kaiser-Frazer Company of Anchorage.

Before the Honorable J. L. McCarrey, Jr., District Judge.

This matter comes before the Court on an order to show cause why execution on the plaintiff's judgment should not be allowed, argument having heretofore been heard on November 17, 1958, and decision reserved,

The Court Hereby renders its oral decision:

For the reason that the defendant, Kaiser-Frazer, showed to the Court that Workman's Compensation lien judgment of the plaintiff was never perfected, and for the further reason that the plaintiff showed there was two unsatisfied tax liens, one to the federal government and one to the Territory of Alaska, which are prior to the lien of the plaintiff, the Court now finds that the judgment of the plaintiff is not entitled to execution and further finds that the determination of the Marshal requiring that plaintiff post bond in twice the amount is proper, the Court hereby holds that the Order to Show Cause should be dismissed.”

Above Minute Order entered Journal No. J62, page No. 143, November 18, 1958;

And, further, petitioner appeals from that Order in this same action ordering that the order to show

cause be dismissed, made and entered Journal 62, Page 277, on December 10, 1958.

Dated this 18th day of December, 1958, at Anchorage, Alaska.

BELL, SANDERS &
TALLMAN,

Attorneys for Appellant;

By /s/ JAMES K. TALLMAN.

[Endorsed]: Filed December 18, 1958.

[Title of District Court and Cause.]

CLERK'S CERTIFICATE
ORIGINAL RECORD

I, Wm. A. Hilton, Clerk of the above-entitled court, do hereby certify that pursuant to Rule 10 (1) of the Rules of the United States Court of Appeals, Ninth Circuit, and Rules 75(g) and 75(o) of the Federal Rules of Civil Procedure, I am transmitting herewith the original papers in my office dealing with the above-entitled action or proceeding. No designation of record having been filed.

The papers herewith transmitted constitute the record on appeal to the United States Court of Appeals for the Ninth Circuit, San Francisco 1, California, from Minute Order entered Journal

No. J62, Page No. 143, November 18, 1958, and Order entered Journal 62, Page No. 277, December 10, 1958.

Dated at Anchorage, Alaska, this 23rd day of January, 1959.

[Seal] /s/ WM. A. HILTON,
Clerk.

[Endorsed]: No. 16354. United States Court of Appeals for the Ninth Circuit. John D. Budke, Appellant, vs. Kaiser-Frazer Company of Anchorage, Appellee. Transcript of Record. Appeal from the District Court for the District of Alaska, Third Division.

Filed: January 26, 1959.

Docketed: February 9, 1959.

/s/ PAUL P. O'BRIEN,
Clerk of the United States Court of Appeals for
the Ninth Circuit.

No. 16,354

United States Court of Appeals
For the Ninth Circuit

JOHN D. BUDKE,

Appellant,

VS.

KAISER-FRAZER COMPANY OF ANCHORAGE,

Appellee.

Appeal from the District Court, District of Alaska,
Third Division

BRIEF OF APPELLEE

DAVIS, HUGHES & THORSNESS,

Box 477, 214 Loussac-Sogn Building,

Anchorage, Alaska,

Attorneys for Appellee

Northwest Auto Sales, Inc.

FILED

OCT 19 1959

PAUL P. O'BRIEN, CLERK

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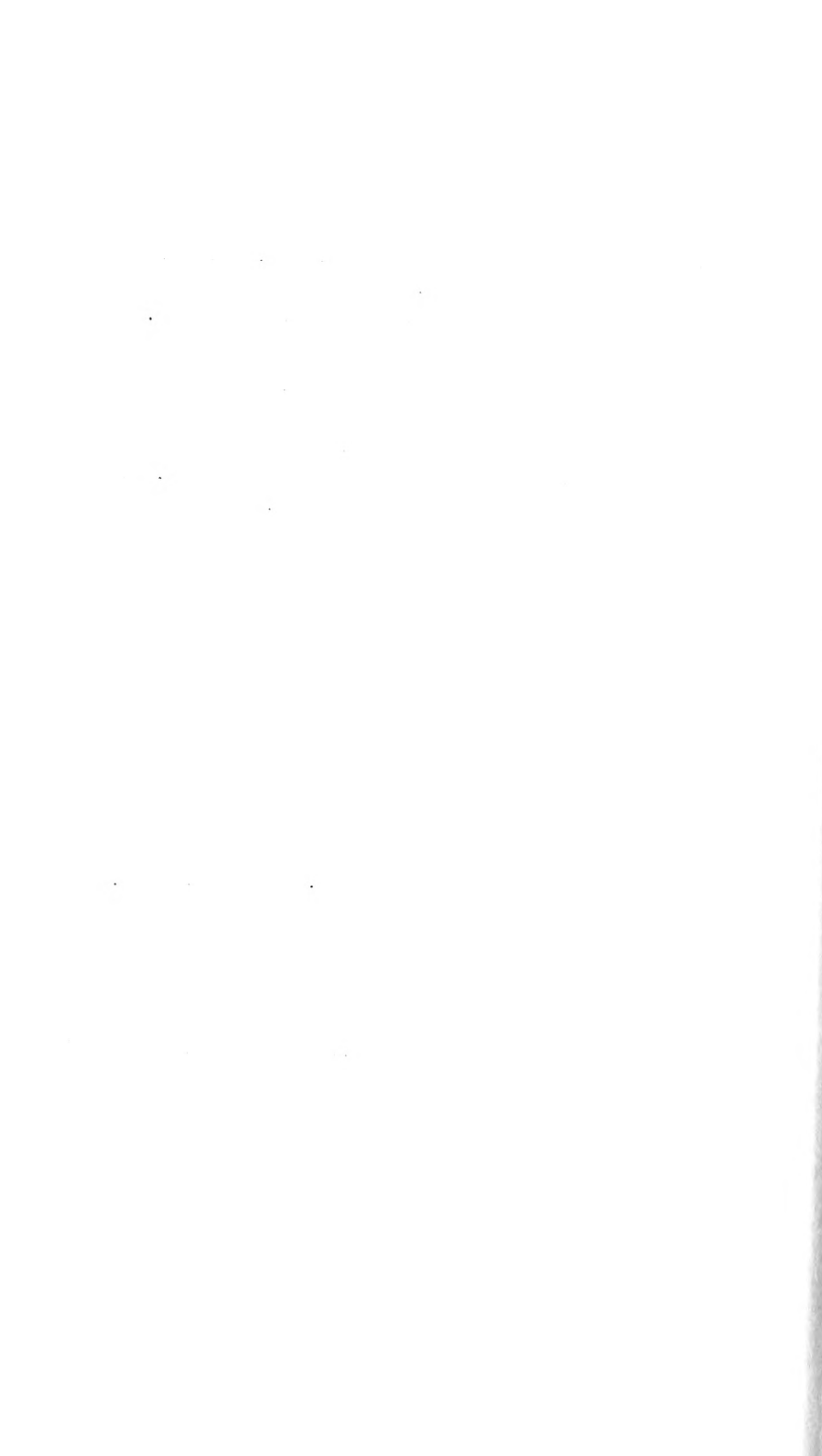
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Sec. 43-3-5	6, 23, 24
Sec. 43-3-17	6
Sec. 53-1-1	2
Sec. 55-9-61	25
Sec. 55-9-73	19
Sec. 55-9-84	19, 20
Sec. 56-1-32	22
Session Laws Alaska, 1955, Ch. 52, page 130	25

Texts

21 American Jurisprudence, Executions, Sec. 17	19
30-A American Jurisprudence, Judgments, Sec. 57	18
37 American Jurisprudence, Mortgages, Sec. 747, page 168	26
Barron & Holtzoff, Federal Practice and Procedure, Rules Edition, Sec. 1582	16

Miscellaneous

118 A.L.R. 762	21
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No. 16,354

**United States Court of Appeals
For the Ninth Circuit**

JOHN D. BUDKE,

VS.

KAISER-FRAZER COMPANY OF ANCHORAGE,

Appellant,

Appellee.

**Appeal from the District Court, District of Alaska,
Third Division**

BRIEF OF APPELLEE

I

**STATEMENT AS TO PROCEEDINGS
AND JURISDICTION**

This is an appeal taken by John D. Budke, appellant (plaintiff in the District Court), from an order entered by the District Court for the District of Alaska, Third Division, on December 10, 1958. The District Court ordered dismissed a certain order to show cause, issued by that Court on the 7th day of November, 1958, directed to Northwest Auto Sales, Inc., an Alaska corporation, appellee herein, in Cause No. A-10,327, District Court, District of Alaska, Third Division, entitled John D. Budke, petitioner, v. Kaiser-Frazer Company of Anchorage, defendant. The order to show cause is found at page 20 of the

record. The order dated December 10, 1958, dismissing the order to show cause, and from which this appeal is taken, is found at page 32 of the record.

Jurisdiction of the District Court was conferred by title 48, U.S. Code, Sec. 101 (See also Alaska Compiled Laws, Annotated, 1949, 53-1-1). Practice and procedure in the District Court was governed by the Federal Rules of Civil Procedure.

Jurisdiction of this Court to review the judgment of the District Court is conferred by Title 28, U.S. Code, Secs. 1291 and 1294. In procedural matters this appeal is governed by the Federal Rules of Civil Procedure.

Appellee does not contest the jurisdiction of this Court to hear appeals from orders of the District Court for the District of Alaska which were entered prior to January 3, 1959. Appellee does question the jurisdiction of this Court in this matter in that it is believed the order of the District Court from which the appeal is taken is not an appealable order.

II

STATEMENT OF CASE

This appeal is from an order entered December 10, 1958, by the District Court for the District of Alaska, Third Division, in Case No. A-10,327 of that Court (R 32). The District Court action was entitled John D. Budke, petitioner, v. Kaiser-Frazer Company of Anchorage, defendant. For the sake of brevity

this action will be called "the Budke case" in this brief and the District Court for the District of Alaska, Third Division, will be called "the District Court".

The order from which this appeal was taken denied a motion of appellant Budke for issuance of a special execution against certain real property, situated in Anchorage, Alaska, described as Lot 4 in Block 19 of the East Addition to the Original Townsite of Anchorage, Alaska. Such property will be described herein as "the property".

The decision of the District Court in making the order from which the appeal was taken, depended in part upon the record in another case of the District Court, No. A-9729, entitled First National Bank of Anchorage, a corporation, plaintiff, v. Kaiser-Fraser of Anchorage, Inc., Audrey I. Cutting, the United States of America, Territory of Alaska, and John D. Budke, defendants. That case was a mortgage foreclosure suit involving the property. For convenience herein we will call that suit "the foreclosure suit".

The defendant Kaiser-Fraser of Anchorage, Inc. named in the foreclosure suit was an Alaska corporation. We will refer to it in this brief as "the corporation".

John D. Budke was named as a defendant in the foreclosure suit and is the appellant in this matter. We will call him "Budke".

Northwest Auto Sales, Inc. is an Alaska corporation and is the appellee herein. It will be called "Northwest" in this brief.

The Budke case resulted in a judgment of the District Court entered October 11, 1954 (R 3) confirming an award made by the Alaska Industrial Board in favor of Budke and against Budke's employer, Kaiser-Frazer Company of Anchorage. That company will be designated herein as "the employer".

It will be necessary to detail various matters with reference to the title to the property and concerning the Budke case and the foreclosure suit in order that the Court may have a full understanding of the action of the District Court with reference to its order entered December 10, 1958, and relative to this appeal. Some of such matters are disclosed by the printed record. Some are before the Court in the original file in the Budke case but were not designated or printed. Some are in the original file of the foreclosure suit which was adopted by reference in the District Court proceedings relative to the matter.¹ Some are not in

¹In the District Court, appellee Northwest based its defense to the order to show cause on all of the records and files of the foreclosure suit and of the Budke case. By reference it made all of the records of both cases a part of the show cause proceedings in the Budke case and requested the Court to take judicial notice of the matters contained in such records (R 22, 27). Appellant failed to designate any record on appeal and the clerk of the District Court transmitted the original papers in the Budke case as the record on appeal. The original papers in the foreclosure suit were not forwarded. The designation of record made by appellant in this Court on February 18, 1959 included only a portion of the record in the Budke suit. Documents so designated, together with additional documents designated by the appellee, constitute the printed record. Appellant by motion dated July 23, 1959, sought to enlarge the record to include certain documents in the foreclosure suit. This Court denied that motion for lack of jurisdiction. Appellant has attached a copy of an opinion of the District Court, dated April 4, 1956 (139 F. Supp. 346), as rendered in the foreclosure suit, as an appendix to his brief.

the file of either the Budke case or the foreclosure suit but are matters of public record in the District Court² or in the recorder's records.³

The property was owned on January 8, 1952, by one Nels O. Nelson. On that date, Nelson, by warranty deed, conveyed the property to the corporation. This deed was recorded in the records of Anchorage Recording Precinct, at Anchorage, Alaska, on August 7, 1952 (R 24, 28, 29).

On April 20, 1953, the corporation, as owner of the property, mortgaged the property to the First National Bank of Anchorage. The mortgage was recorded on April 23, 1953, in the records of Anchorage Recording Precinct at Anchorage, Alaska, (R 24, 29).

The United States of America on June 1, 1953, and again on January 8, 1954, through the Commissioner of Internal Revenue recorded certain liens for taxes, penalty and interest against the property belonging to the corporation. The liens totalled approximately \$14,000.00 plus penalty and interest. The Territory of Alaska through its tax commissioner on February

²Cause No. A-15,271 of the District Court entitled Northwest Auto Sales, Inc., an Alaska corporation and Karl V. Holmberg and Julian Longoria, plaintiffs, v. John D. Budke, defendant, was filed November 29, 1958. Budke has answered the complaint and the matter is at issue. The suit is one for "strict foreclosure" against Budke to litigate his alleged interest in the property and to give him a chance to redeem from the foreclosure suit sale if he so desires.

³Claim of lien by Budke, hereinafter mentioned, recorded December 17, 1953, Records of Anchorage Recording Precinct, Labor Lien Book #1, page 280. Copy of this claim is attached hereto as Appendix No. 1.

8, 1954, recorded certain liens for taxes, penalty and interest against the property belonging to the corporation. Such liens totalled approximately \$1900.00 plus penalty and interest.

The judgment in favor of Budke, and against the employer, was entered ex parte by the District Court pursuant to 43-3-17, A.C.L.A. 1949, on a certified copy of an award made by the Alaska Industrial Board on September 7, 1954. The award by the Industrial Board was based on injuries supposedly suffered by Budke on October 11, 1953, while driving an automobile owned by the employer.

Budke filed a claim of lien with the recorder at Anchorage, Alaska on December 17, 1953, instrument number 9447, recorded in Labor Lien Book No. 1 at page 280. Copy of this claim is included as Appendix No. 1 herein. Budke never at any time filed a suit in equity for the foreclosure of any lien which he may have claimed under the provisions of 43-3-5, A.C.L.A. 1949.

The mortgage given by Kaiser-Fraser of Anchorage, Inc. to the First National Bank of Anchorage, Alaska, above described, was foreclosed by the First National Bank of Anchorage, Alaska because of non-payment of the note secured by such mortgage (R 24, 29). The foreclosure suit was commenced in the District Court as No. A-9729 and as above set out, is called "the foreclosure suit" herein.

In the foreclosure suit the United States of America, the Territory of Alaska and Budke were all

named as parties defendant as claiming some lien against the property. The complaint alleged that the liens of these parties against the property, if any, were inferior to the mortgage held by the First National Bank of Anchorage. Service of process was had on the United States of America and on the Territory of Alaska and they appeared in the action. Publication of summons was made against defendant Budke, but he did not appear in the action and default was entered against him.

The District Court, on October 12, 1955, entered Findings of Fact in the foreclosure suit and found that the mortgage held by the First National Bank of Anchorage was a first and prior lien against the property, and that the claim of the United States of America had second priority and the claim of the Territory of Alaska had third priority. Paragraph Nine of such Findings of Fact and Conclusions of Law found that the defendant John D. Budke claimed some right, title and interest in the property but that such claim was inferior and subsequent to the lien of the mortgage held by the First National Bank of Anchorage. The decree foreclosed the mortgage held by the First National Bank of Anchorage and directed the United States Marshal for the Third Division of Alaska to sell the property according to the practice of the Court and in accordance with law. The decree also provided that the interests of all the defendants in the property were forever barred and foreclosed except as to the equity of redemption provided by statute and that the purchaser of the property at the Marshal's Sale should

be put in possession of the property and that after expiration of the period of redemption that the United States Marshal should execute a deed conveying the property to the purchaser at the foreclosure sale. The decree furthermore provided that if the property was sold for more than enough to pay the judgment rendered in favor of the First National Bank of Anchorage, including interest, costs and attorney's fees, that the balance of the proceeds of the sale, should be deposited in the registry of the Court for further determination with reference to the priority of the United States of America and the Territory of Alaska. As directed by the foreclosure decree, the United States Marshal proceeded to advertise the sale of the property.

On November 18, 1955, attorney James K. Tallman appeared in the foreclosure suit on behalf of Budke. He filed a motion supported by his affidavit which was to the effect that no mailing of a copy of order for publication of summons or any summons had been mailed to Budke in the foreclosure suit as required by law. He stated that Budke had a valid and meritorious defense to the action in that he had a judgment dated October 11, 1954 "which said judgment was based upon the lien made prior and paramount and superior to any other lien by statute" upon the property. This was followed by a supplementary motion by Mr. Tallman, as attorney for Budke, which prayed that the judgment entered by the District Court on October 12, 1955 in the foreclosure suit should be set aside on the ground that Budke had a

meritorious defense to the action in that "he has a judgment, dated October 11, 1954, which said judgment was based upon a lien made prior and paramount to any other lien by statute and that defendant was, from lack of knowledge, prevented from appearing". This motion was supported by another affidavit by Mr. Tallman to the effect that he was informed and believed that the First National Bank of Anchorage, had not used diligence in attempting to locate Budke, because the firm of Bell & Sanders, attorneys for Budke, on behalf of Budke, had notified the First National Bank of Anchorage of the lien claim filed by Budke and claimed that the Bank had knowledge and notice that the firm of Bell & Sanders represented Budke in some matters. The motion was also supported by an affidavit of Ernest P. LaBate to the effect that on January 14, 1954, he had personally served upon several banks, including the First National Bank of Anchorage, a certified copy of a certain claim of lien by John D. Budke.⁴ Arguments were had on November 25, 1955 on the various motions filed for Budke. The Court took the matter under advisement.

The United States Marshal sold the property to Northwest on the 5th day of December 1955 for the sum of \$13,004.00 under the directions contained in the decree of foreclosure entered in the foreclosure

⁴The affidavit by Mr. LaBate states that a true copy of the claim of lien of John D. Budke is attached. A check of the records of the clerk of the District Court discloses that no claim of lien is attached to the LaBate affidavit and that none is in the file. However, the lien claim was recorded as hereinabove set forth and a copy is attached hereto as Appendix No. 1.

suit. On February 3, 1956, the clerk of the District Court under order of that Court paid to First National Bank of Anchorage the proceeds of the Marshal's Sale less the Marshal's costs and commissions.

Meanwhile on December 15, 1955, John D. Budke, through James K. Tallman, his attorney, made a motion to the District Court, in the foreclosure suit, in which he requested that the Court rescind the sale of the property which had been made by the United States Marshal on December 5, 1955. He also requested that the Court deny confirmation of the sale when motion for confirmation should be presented to the Court. The motion was based on the previous motions and affidavits made on behalf of Budke in which he had attempted to have the decree set aside because he had not been properly served with summons in the action. Argument was had on that motion on January 5, 1956 and the Court reserved decision. On January 26, 1956, an affidavit dated January 21, 1956, executed by Budke was filed with the Court in the foreclosure suit. The affidavit was to the effect that Budke had never been served with process with reference to the foreclosure suit. In the affidavit he asked that any orders and judgments in the action might be set aside in order that he might have counsel and appear and protect his interests.

On February 2, 1956, the District Court rendered oral decision denying motion to set aside the judgment and motion to refuse confirmation of sale, and motion to rescind the sale. In the same opinion the

Court found that service of process upon Budke was not sufficient, for reasons that would be set forth in a written opinion to be finalized at a later date (minute order entered by the Court February 2, 1956, G 44, page 157). This was followed by written opinion of the Court dated April 4, 1956, 139 F. Supp. 346, copy attached to appellant's brief as an appendix.

On June 22, 1956, the First National Bank of Anchorage, Alaska, the plaintiff in the foreclosure suit, moved for confirmation of the foreclosure sale. Service of copy of the motion for confirmation was acknowledged by attorneys for Budke. No further appearance was made on behalf of Mr. Budke with reference to the order for confirmation of sale. The sale was confirmed on July 6, 1956 by order of the District Court entered in G 46, page 367 of the Court records.

Budke caused execution to be issued by the District Court on May 24, 1955 in the Budke suit. That execution was recalled and returned by the United States Marshal at the request of Budke's attorneys and was never levied.

No redemption was had from the Marshal's sale on foreclosure and the Marshal conveyed the property to Northwest, purchaser at the Marshal's sale, by Marshal's deed, on July 15, 1957. This deed was recorded on July 16, 1957 in the Records of Anchorage Recording Precinct at Anchorage, Alaska (R 25, 29).

On November 21, 1957, execution was issued by the District Court in the Budke suit (R 5). The United States Marshal executed the writ by delivering a copy

thereof to Edward R. Meekins, the occupant of the property, and noticed the property for sale for the 24th day of February, 1958 (Return of Marshal, R 15). Northwest, owner of the property, executed a third party claim to the property on February 4, 1958 and delivered it to the Marshal (R 10, 11). This third party claim was accompanied with the affidavit of Edward R. Meekins, President of Northwest, as to the title claim of Northwest (R 12). The United States Marshal notified Budke's attorney of the third party claim and allowed a period of five days to post indemnity bond required by law (R 8, 9 and 16). Thereupon, Mr. Tallman as attorney for John D. Budke, moved that the Court enter an order enjoining the United States Marshal from releasing the levy made against the property (R 6, 7). This motion was accompanied by affidavit of Mr. Tallman as attorney for Budke. The motion was not heard and was subsequently abandoned. No indemnity bond was posted. The Marshal cancelled the proposed sale of the property and released the execution (R 16).

On November 7, 1958, attorneys for Budke, in the Budke suit, filed a motion requesting that Northwest be required to show cause as to why the property should not be levied upon and ordered sold to satisfy the judgment in the Budke suit (R 17). The motion was accompanied by an affidavit filed the same day (R 18). The District Court issued an order to show cause, directed to Northwest, along the lines requested by the motion (R 20). Meanwhile, the property had been sold and conveyed by Northwest to Karl V.

Holmberg and Julian Longoria on February 25, 1958, by deed recorded May 5, 1958 (R 23, 30).

Northwest made return to the order to show cause (R 22), accompanied by affidavit of Edward R. Meekins, its president, setting forth the record as to the title to the property from January 8, 1952 to the month of November, 1958 (R 28). The title records of Anchorage Recording Precinct at Anchorage, Alaska, disclose that the employer never at any time had title to the property (R 23, 30).

The show cause proceedings were heard on November 17, 1958 and argument was had on behalf of the respective parties. The Court rendered its oral decision directing dismissal of the order to show cause on November 18, 1958 (R 31). It followed the oral opinion with a formal order of dismissal entered on December 10, 1958 (R 32).

Notice of appeal from the order of November 18, 1958 was filed on behalf of Budke on December 18, 1958 (R 33). Appellant did not file any designation of record. The clerk of the District Court forwarded the entire record in the Budke suit to the Court of Appeals under his certificate dated January 23, 1959 (R 35). The record was filed with the Court of Appeals on January 26, 1959 but was not docketed until February 9, 1959, when appellant paid the required docket fee (R 36). Appellant never filed a statement of points on which he intended to rely. He did file with this Court what he called "specifications of error" on or about September 10, 1959 (Brief 7).

On November 29, 1958, Northwest, Holmberg and Longoria as plaintiffs, commenced an action against Budke as defendant. The action is Number A-15,271 of the District Court. The complaint prays that Budke set forth his claim, if any, to the property and that the Court find that the claim of Budke to the property may be held to be secondary and subordinate to the claim of the plaintiffs to the property and that Budke be given a specific time to redeem the property from the foreclosure sale, if it be determined that he has any interest in the property. Budke has answered the complaint and the matter is at issue.

Budke has not filed any cost bond with reference to this appeal.

III

SUMMARY OF ARGUMENT

This appeal should be dismissed for technical reasons because of the failure of the appellant to comply with the Federal Rules of Civil Procedure, or with the rules of this Court, pertaining to appeals.

This appeal should be dismissed for the reason that the order entered by the District Court on December 10, 1958 is not a "final decision" within the meaning of Section 1291 of Title 28, U.S.C., and accordingly the order is not an appealable order. This appeal is without merit because, as a matter of law, on the record which was before the District Court, appellant had no right to levy execution against the property or to have the property sold at execution:

A. Because the judgment in the Budke case created no lien against the property.

B. If appellant, as the judgment creditor in the Budke suit, desired to sell the property at execution sale, he should have posted indemnity bond as required by law upon third party claim to the property being filed and proceeded thereafter to litigate title to the property with Northwest, the appellee herein, the occupant and then the owner of the property.

The show cause proceedings would not and could not have finally settled anything between Budke and the owners of the property. The only way this matter can be finally settled is by litigation between the parties. The pending District Court action, in which all parties are before the Court, will finally settle the rights of the parties to the property.

The order entered by the District Court was proper and in fact was the only order which the Court could have entered on the record established in that Court. Accordingly, this appeal should be dismissed or in the alternative this Court should affirm the action taken by the District Court.

IV

ARGUMENT

This appeal should be dismissed by this Court for various technical reasons because of the failure of appellant to comply with the Federal Rules of Civil Procedure and with the rules of this Court, with reference to appeals as follows:

(1) No bond for costs on appeal was filed with the notice of appeal, or at all, as required by Rule 73(c) of the Federal Rules of Civil Procedure.

(2) The record on appeal was not docketed within forty days after filing of notice of appeal as required by Rule 73(g) of the Federal Rules of Civil Procedure. No request was made either to the District Court or to this Court for extension of time for docketing the record and no extension of time was granted by either Court.

(3) Appellant has failed to designate sufficient of the record considered by the District Court so that this Court can intelligently consider the matters which were before the District Court on the show cause proceeding and with reference to its order dated December 10, 1958. The judgment of the District Court is presumptively correct and the Court of Appeals will indulge all reasonable presumptions in support of the ruling of the trial court. (*Pasadena Research Laboratories v. United States*, C.A. 9, 169 F. (2d) 375, 380, *certiorari* denied 335 U.S. 853. *Henderson v. United States*, C.A. 9, 143 F. (2d) 681, 682.) It is the duty of appellant to designate the contents of the record and he should designate enough to permit a full presentation of his points. (Barron and Holtzoff, Federal Practice and Procedure, Rules Edition, Section 1582, Notes 11 and 12 and cases there cited.)

(4) Appellant has failed to file with the clerk of this Court a "concise statement of the points on which he intends to rely", in violation of Rule 17 of this Court.

(5) Appellant has filed with this Court what he designates as "specifications of error" in an

attempt to comply with Rule 18(d) of this Court. However, the so-called "specifications of error" is merely a statement that the District Court erred in refusing to issue the special execution after the United States Marshal refused to act upon an execution regularly issued. It does not set forth any specifications at all as to how or in what manner the District Court is alleged to have erred in making the ruling from which the appeal is taken (See *Lowe v. McDonald*, C.A. 9, 221 F.(2d) 228; *Hargraves v. Bowden*, C.A. 9, 217 F.(2d) 839 and *Toguri D'Aquino v. United States*, C.A. 9, 192 F.(2d) 338, 348, *certiorari* denied, 343 U.S. 935, rehearing denied, 345 U.S. 931).

In passing, may we suggest that the judgment entered by the Court in the Budke case on October 11, 1954 (R 3) may very well be void for uncertainty. For instance, by paragraph 1(a) Mr. Budke was to receive compensation for temporary total disability for an unspecified period of not to exceed twenty-four months from and after October 11, 1953. By paragraph 1(c) he was to receive all expenses incurred by him for medical, surgical, hospital and other treatment in respect to his injuries. The amount is unspecified. By paragraphs 1(d), (e) and (f) it was provided that petitioner should receive judgment for his costs and disbursements and his attorney's fee and interest and penalty. None of these were fixed. Under paragraph 2 of the so-called judgment it appears that it was intended that further proceedings would be had in the matter. It would seem that this so-called judgment was not a judgment at all and was not final and lacked

sufficient certainty to support a writ of execution. (See 30-A, Am. Jur. Section 57, where it is stated that it is the fundamental rule that a judgment should be complete and certain in itself and that a failure to comply with this requirement may render a judgment void for uncertainty.)

Assuming, for the purpose of argument, that the judgment of the Court entered October 11, 1954 was sufficiently certain to support a writ of execution, it is apparent that the order entered by the Court in the Budke case on December 10, 1958, is not a "final decision" within the meaning of Section 1291 of Title 28, U.S.C., and thus it is not appealable. (See cases cited in Note 102 under Title 28, Section 1291, U.S.C.A. in the main volume and in the pocket parts. In particular see *Gillespie v. Schram*, 108 F.(2d) 39, 43, and *Clinton Foods v. United States*, 188 F.(2d) 289, 291, *certiorari* denied, 342 U.S. 825; *Hohorst v. Hamburg-American Packet Company*, 148 U.S. 262; *Collins v. Miller*, 252 U.S. 364, 370; *Oneida Nav. Corp. v. Job & Co.*, 252 U.S. 521, 522; *Arnold v. Guimarin & Co.*, 263 U.S. 427, 434, which were to the effect that "a final decision", in the sense required in order that it is appealable, is one that puts an end to the suit, deciding all the points in litigation, leaving nothing for judicial determination but enforcement by execution or other process.) Whichever way the District Court might have ruled on the show cause proceeding, the ruling would not have settled the controversy between the plaintiff-appellant and Northwest, the owner of the property and the appellee herein. Had the Court

ruled in appellant's favor and issued the so-called "special execution", plaintiff intended to sell the property at Marshal's Sale and thereafter to litigate his rights to possession of and title to the property, in an independent proceeding (see affidavit of Mr. Tallman, R 20, which was presented with Budke's motion for order to show cause). Even if the Court had ordered issuance of the "special execution" and if that execution had been levied upon the property, Budke would still have been required to comply with the provisions of Title 55-9-84, A.C.L.A. 1949, relative to proceedings upon a third party claim. A "special execution" at common law was defined as one which pointed out and specified the property to be sold and which followed the judgment in respect of the disposition of the proceeds arising from the sale. (21 Am. Jur. Executions, Sec. 17.) A special execution, as such, is unknown in Alaska practice. However, the Alaska statute with reference to executions (55-9-73, A.C.L.A. 1949, First Section), provides for executions of this type. A mere reading of the judgment in the Budke case (R 3) will disclose that it was not a judgment which directed the sale of any specific property or provided for application of the proceeds on an execution sale. It is interesting to note that Budke had already had a "special execution" and had tried to sell the specific property herein concerned even though his judgment did not direct the sale of that property or of any property. The execution issued on November 21, 1957 (R 5) directed the marshal to levy upon and to sell the property herein concerned if

sufficient personal property belonging to the employer could not be found. Under that execution the marshal levied upon the property and noticed it for sale and then released it from the levy when Northwest filed a third party claim to the property and Budke failed to post the indemnity bond required by 55-9-84, A.C.L.A. 1949 (R 16). Had the District Court ruled in Budke's favor on the show cause proceedings, the order would have availed Budke nothing. The controversy as to ownership of and right to possession of the property would have remained and would have had to be finally resolved by additional litigation.

On the other hand, the ruling made by the Court has not finally settled anything between Budke and Northwest. Budke, if he so desires, could again request an execution against any property belonging to the employer. If under that execution the property herein concerned should be seized by the Marshal the property would again be released upon filing of third party claim unless indemnity bond was furnished by Budke as required by the statute. The title to and the right of possession of the property would still need to be settled in another proceeding. That other proceeding is presently pending in the District Court, No. A-15,271, an action for "strict foreclosure" commenced by Northwest and its successors as plaintiffs against Budke as defendant. The action seeks to have Budke establish his claim to the property, if any, to determine priorities, and to set a date for redemption by Budke if his claim should be established. (As to "strict foreclosure" actions see *Sears Roebuck &*

Company v. Camp, 1 At.(2d) 425, 118 A.L.R. 762 and annotation entitled "Strict foreclosure as remedy where claimant of title, interest, or lien subordinate to mortgage was not made party to prior judicial foreclosure and sale", 118 A.L.R. 769, and cases there cited.) This appeal can accomplish nothing in settling the rights of the parties whichever way it is decided.

Getting down to the merits of the controversy, and as an alternative in the event the court does not rule that this appeal should be dismissed, appellant claims in his brief that the judgment in the Budke suit became a lien on the specific property herein concerned and that accordingly he is entitled to have an execution issued by the District Court which would specifically direct it be levied upon the property and that the property be sold at execution sale. He then intends to litigate the title of and the right of possession of the property in a subsequent proceeding. As we have previously pointed out, a subsequent action is presently pending before the District Court. That action will determine the rights of the parties. Budke has appeared in the action and all of the parties are before the court. The action is at issue.

Budke's claim to the property has never been judicially determined. Budke was a necessary party to the foreclosure suit if his claimed lien against the property was secondary and subordinate to the lien of the mortgage held by the First National Bank of Anchorage. If, as he claimed, his alleged lien was prior to the lien held by the bank, Budke was a proper, but not a necessary party to the foreclosure proceed-

ings (56-1-32, A.C.L.A. 1949). He was named as a party in the foreclosure suit as having a lien subsequent to the lien held by the bank. The Court has previously held (opinion April 4, 1956, 139 F. Supp. 346, 348, appendix attached to appellant's brief) that proper service was not made upon Budke and accordingly he was not made a party to the foreclosure suit and was not bound by the decree in that suit. However, the Court did not hold, as is claimed by appellant in his brief, that Budke had any interest at all in the property. The doctrine of *res judicata*, or the doctrine of merger, urged by appellant in his brief, neither one get to the matter. Budke was not before the court in the foreclosure proceedings and his rights, if any, were not litigated. The Court specifically declined to determine anything regarding Budke except that he was not properly before the Court and could not be bound by the foreclosure decree. The ruling of the District Court in its opinion dated April 4, 1956, should be considered as a whole and not piecemeal as appellant would have us do. Between the time of the entry of the decree in the foreclosure proceedings and the sale of the property at Marshal's sale, Budke appeared in the foreclosure proceedings. He never at any time filed an answer or offered to file an answer, as is required by law of a party who wishes to set aside a decree because he has not been properly served. He took part in the foreclosure proceedings over a period of several months from his first appearance. In those proceedings he maintained at all times that he had a prior lien against the property herein concerned by reason of the provisions of

43-3-5 A.C.L.A. 1949. Under that contention the Court held, and properly so, that while Budke was a proper party to the foreclosure proceedings that he was not a necessary party. The Court never passed on the merits of Budke's claim or his claim that he had a first and prior lien against the property. It accepted Budke's statement that he did have a first and prior lien against the property for the purpose of deciding the motion. Accordingly the Court refused to set aside the decree and reopen the matter for litigation of Budke's claim as it should properly have done if Budke had stated the true situation that his claim, if any, was secondary and subordinate to the claim of the mortgage held by the bank.

Appellant argues at page nine of his brief that he was originally entitled to a lien that was paramount and superior to any other lien upon the property. He quotes 43-3-5 A.C.L.A. 1949, and states that he argues the matter of priority of liens because the appellee has attempted to confuse the issues and has argued throughout the proceedings concerning priority of other liens. He argues that by the doctrine of merger and by the doctrine of *res judicata*, by some sort of magic which is not explained, his claim against the property, which as the record shows, could have been no better than a claim of fourth priority, has now assumed first place because the property has been sold in a proceeding to which Budke was not a party.

As a matter of fact it was demonstrated beyond question to the District Court and appears without question from the record which is before this Court,

that appellant had no lien whatsoever, prior or otherwise, against the property.

The lien allowed by 43-3-5 A.C.L.A. 1949, is effective only against property belonging to the employer (*Rivers v. Wiggins*, 15 Alaska 292) and only against that part of the property belonging to the employer upon which the injured employee was performing work in *construction, preservation, maintenance or operation at the time of the injury of the employee*. (*Hanson v. American Legion Post No. 11*, 12 Alaska 332, 338.) The record stands without dispute (R 30) that the employer never had any interest in the property. Budke had full opportunity to show to the District Court, if he could, that the employer had an interest in the property to which a lien could attach. He made no showing. Budke was injured in an automobile belonging to his employer. His lien claim might have been effective as against the automobile but that is as far as it could go. The statute requires that a person claiming a lien under the statute shall within four months after the date of the injury file for record a notice of lien which shall contain a "description of the property affected or covered by the lien so claimed". The lien claim filed by Budke did not describe the property. For that matter it did not describe any specific property (see Appendix 1 attached to this brief). Furthermore, the statute requires that in the event a lien is claimed, in order to perfect the lien, a suit in equity must be commenced within ten months after the cause of action shall arise. Appellant never commenced an action to foreclose his alleged lien. It

is manifest that appellant does not have any lien against the property under the provisions of the Workmen's Compensation Act.

Appellant at page seven of his brief claims that he had a judgment lien against the property herein concerned. He quotes 55-9-61 A.C.L.A. 1949, in support of that claim. (The statute quoted by appellant as being 55-9-61 A.C.L.A. 1949 is actually the statute as amended in 1955, S.L. 1955, Ch. 52, page 130, effective six months after the entry of the judgment in the Budke case.) However, and as we have previously shown, the employer never had any interest in the property herein concerned. Accordingly, under the provisions of 55-9-61, A.C.L.A. 1949, even including the amendment made in 1955, appellant had no lien against the property herein concerned. A judgment lien attaches only to real property "of the defendant".

Furthermore, even if it were conceded that Budke had a lien against the property, such lien at best was a fourth lien. The mortgage lien and the liens of the United States for taxes and the liens of the Territory of Alaska for taxes were all recorded prior to the docketing of the judgment in the Budke case.

Under the decree of foreclosure and the purchase of the property by Northwest at marshal's sale and upon conveyance of the property to Northwest by the United States Marshal, as the result of the foreclosure sale, Northwest and its successors have succeeded to the rights of the corporation as owner of the property and of the First National Bank of Anchorage, mortgagee, and of the other parties holding liens prior to

Budke's claim (37 Am. Jur. Mortgages, Sec. 747, page 168). Budke's only right as against Northwest, and against its successors, is the right to redeem the property, if in fact he has any right at all. The strict foreclosure suit will give Budke his "day in court". It will allow him to establish his claim if he has one. It will allow him to establish the priority of any claim he may prove. It will allow him to redeem the property from prior claims if he desires to do so.

Appellee has been unable to follow the arguments made by appellant in his brief (page fourteen) where he claims that certain unnamed real parties in interest have been unjustly enriched to the extent of \$20,000. The record before the District Court disclosed that Budke had no claim at all against the property herein concerned. All parties were named in the show cause proceedings in the District Court. The real party in interest was the owner of the property, Northwest, to February of 1958, then Holmberg and Longoria, the owners after the conveyance to them by Northwest. Northwest paid \$13,004 to the United States Marshal as the purchase price for the property at the Marshal's sale. If anybody has been negligent in not protecting his rights, that person is Mr. Budke. It would appear that his argument concerning unjust enrichment has no merit whatsoever.

In conclusion, it is apparent from the record that the judgment in the Budke case was never at any time a lien against the property. Furthermore it is apparent that appellant was not entitled to a lien against the property under the provisions of the Workmen's

Compensation Act and that he secured no lien against the property. Under the show cause proceedings the best that appellant could ever have received would have been a permission by the Court to execute on the property herein concerned. That procedure had already been tried by appellant and the execution had been released because appellant was unwilling to furnish a bond as required by law where a third party claim has been filed. Granting of plaintiff's motion in the proceedings on order to show cause would have been vain and useless and at best would have clouded the title to the property and would have resulted in a multiplicity of suits. The issue can best be determined by the pending proceeding before the District Court. In the show cause proceedings it was clear that Budke had no valid lien against the property. The District Court, on the record made before that Court, had no choice but to dismiss the show cause proceedings. Its action in ordering the dismissal of those proceedings was proper. This appeal should be dismissed by this Court for the reasons set out in this brief or in the alternative the action of the District Court should be affirmed.

Respectfully submitted, this 1st day of October, 1959.

DAVIS, HUGHES & THORSNESS,
By EDWARD V. DAVIS,
Attorneys for Appellee
Northwest Auto Sales, Inc.

Appendix.



Appendix No. 1

9447

John D. Budke

Claimant

vs.

Kaiser-Frazer Co. of Anchorage,

CLAIM OF LIEN

Workmen's Compensation Act of Alaska, Section
43-3-5, Lien to Secure Compensation.

Notice Is Hereby Given that the claimant, John D. Budke, sustained an industrial injury on October 11, 1953 while in the course of his employment with the Kaiser-Frazer Co. of Anchorage, Alaska. That at the time of said injury claimant was informed by his employer, the Kaiser-Frazer Co., that the company had permitted its industrial insurance coverage to lapse and therefore claimant could not receive medical treatment and compensation due him under the Alaska Workmen's Compensation Act.

Claimant received severe injuries to his back and spine, fracture of three ribs on the left chest and fracture of the coccyx and injury to the left leg. That claimant has been totally incapacitated since the time of injury and will be incapacitated for some time in the future and will also have a substantial permanent partial disability.

The claimant estimates that his medical expenses, time loss and disability award under the Alaska Workmen's Compensation Act will amount to at least \$7,500.00.

Therefore the claimant is claiming a lien for such personal injuries, medical and hospital treatment to which he is entitled under the Alaska Workmen's Compensation Act, and particularly Section 43-3-5 and all amendments thereto, to secure compensation under the Alaska Workmen's Compensation Act in the sum of \$7,500.00, together with his attorney fees, costs and interest from the date of his injury, and that said lien shall be placed upon all assets of the Kaiser-Frazer Co. at Anchorage, Alaska, including all buildings, fixtures, furniture, equipment, automobiles, bank accounts, franchise, which said Kaiser-Frazer Co. has, owns, controls, leases, or has an equitable interest in of said properties.

John D. Budke

State of Washington
County of King—ss.

John D. Budke, being first duly sworn upon oath,
deposes and says:

That I am the lien claimant above named; that I
have read the within and foregoing claim of lien, know
the contents thereof and that the same is true.

John D. Budke

Subscribed and sworn to before me this 15 day of
December, 1953.

ROY W. JACKSON

Notary Public in and for the State
of Washington, residing at Seattle.

4/2 3.00

Anchorage Precinct, Anchorage, Alaska:

Filed for record Dec 17 1953 o'clock 11:25 A.M.

By Bell & Sanders Mail to: Box 1599

At Anch.

Rose Walsh LA

District Recorder





